DISCUSSION PAPER

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EU budget post-Brexit

Confronting reality, exploring viable solutions

by Ewa Chomicz

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Table of Contents

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The views expressed in this Discussion Paper are the sole responsibility of the author.

Executive Summary

Given the looming withdrawal of the United Kingdom from the European Union and the country's position as one of the main contributors to the EU budget both in gross and net terms, this paper offers an analysis of the potential implications of Brexit for the EU budget from a political economy perspective.

According to our estimates, **the UK's eventual withdrawal from the Union could leave a financial gap of 14-19%, or EUR 20-27 billion**, which the EU would need to deal with in 2019/2020, in the next Multiannual Financial Framework (MFF), or earlier. This would depend *inter alia* on whether any transition agreement or "phased process of implementation" with the UK is concluded, how the issue of the 'exit bill' is settled, and whether the negotiations last for two years, are extended, or collapse prematurely.

We argue that **a realistic estimate of the gap's size needs to take into account the UK's gross contributions, but also the UK correction**. The rebate's costs have been covered so far by the remaining member states, but its impact has been rather neglected in existing literature on the topic. The study also provides an analysis of the situation prior to the termination of the UK's membership, assessing that the UK's net contributions to the EU budget could potentially be higher before Brexit when compared to payments estimated without the prospect of Brexit, when the impact of the EUR-GBP exchange rate fluctuations was not taken into account. We also draw attention to the fact that post-Brexit not all UK public payments related to cooperation with the EU would necessarily go to the Union's budget.

Theresa May's negotiating aims and red lines are acknowledged, but we argue that any future deal (if concluded) is more than likely to be inconsistent with these objectives, considering that political goals will need to meet economic reality, and keeping in mind traditional trade-offs between sovereignty and access to the single market (linked also to financial contributions). In this light, **three models are considered in detail as regards potential future UK payments to the EU budget: the Norwegian, Swiss and default model (assuming zero direct contributions)**. As such, these models can also serve to present different budgetary implications of different levels of access to the single market.

If direct budget contributions under a Norwegian or Swiss-style deal were the case, the EU budget gap could decrease to 12-18%. However, the UK would likely contribute to the EU budget more in an indirect way, given the potential revenue from customs duties on goods exported from the UK to the EU. If no deal is struck, a roughly estimated financial flow from the customs duties could result in reducing the financial gap to 11-16%. In absolute terms, this would mean roughly EUR 4.2 billion going to the EU budget – a number higher than the EUR 3.9 billion under the Norwegian model when applicable customs duties are also taken into account. In net terms, the contributions linked to the Norwegian model could amount to even less, around EUR 2.7 billion, making the difference more striking. This leads to the conclusion that **the EU's budget in static terms could actually benefit more if no EU-UK post-Brexit arrangement was achieved**. As encouraging that finding may be for supporters of an ultra-hard Brexit on the EU side, such an assessment does not take into account the dynamic effects on the European economy of e.g. the UK's single market access, which could easily outweigh the 'benefits' from tariffs. However, it indicates that **the hardest Brexit might be in the short-term interest of the EU27**.

When reflecting on the 'spending cuts – increased contributions' dilemma in the context of tackling the financial gap, we are first of all guided by political reality as regards member states' positions, which will undoubtedly make any negotiations on this topic extremely difficult. Therefore, instead of focusing on estimates of how big the spending cuts in different categories could be and how much more money every country would have to contribute to cover the Brexit-induced EU budget gap based on increasing countries' GNI contributions, we approach the topic differently. We identify the areas that could be the least (e.g. research) and the most (e.g. cohesion) financially affected post-Brexit, and draw attention to different alternatives for distributing additional payments, as simple mechanisms may prove politically unacceptable. We also **outline a number of ideas that could serve to launch the discussion on ways of making any cuts or extra payments, as well as their public perception, less painful for member states** – e.g. through introducing regulations for an increased use of financial instruments in cohesion policy or putting in place specific arrangements for the allocation of additional payments.

We argue that the influence of Brexit on the EU budget could be crucial in the current political reality and is more of a threat than an opportunity, and we therefore propose concrete policy recommendations for the EU and member states. Based on our analysis and in the light of the current political context, we suggest that **the financial shortage should be approached through four main mechanisms**:

- adjusting the budget size according to the shape of the future EU-UK deal. In this way, the financial gaps in the programmes in which the UK would participate post-Brexit could be reduced. Funding for the Cohesion Fund could also be decreased proportionally to the UK's direct contributions to selected member states for disparities reduction, and additional income from customs duties could be taken into account. The potential temporary financial impact of a negotiated 'exit bill' should also be accounted for. However, as the final shape of any EU-UK arrangement and exit bill is very uncertain, this might require more flexibility in the new MFF negotiating process;
- maintaining the EU27 payments to the EU budget that were once made to cover the costs of the UK rebate;
- making budget cuts in all areas, equivalent to the level of the UK's receipts estimated there;
- decreasing funding for areas considered of lower priority in the outcome of discussions between the Commission, Parliament and Council on the revision of the current MFF. This could be accompanied by additional EU27 payments in fields of higher importance. Rising political priorities such as migration or security could thus be addressed accordingly, similarly to areas with higher EU added value (like research, combating climate change or defence).

Such measures could serve in a transition period before potential new arrangements are in place concerning the revenue and expenditure side of the EU budget, possibly introduced by the next MFF post-2020. New rules could pave the way for potentially maintaining EU revenue at a pre-Brexit level (based e.g. on taxes), reshaping different spending categories (e.g. regional and agriculture policies), or introducing more funding instruments requiring smaller financial input from the EU (like EFSI). As the EU-UK negotiations are expected to develop in parallel with the next MFF negotiation process, they should add momentum to the overall pressure to reform the EU budget which has been mounting across the EU independently of the Brexit vote. This could serve not only to achieve a better financing system, but also to contribute to restoring citizens' trust, and to (re)open or further the discussion on other fundamental financial reforms in the longer term, such as the creation of a eurozone budget. However, given how hard the upcoming negotiations on the future MFF promise to be, it remains to be seen whether such effects could prove to be more than wishful thinking.

Introduction

The Brexit vote on 23 June 2016 shook the European Union and resonated across the globe. British citizens expressed their will to leave the EU, and although the UK has not yet formally notified the EU about its intention to withdraw, this remains only a matter of time in practical terms, given the political context. This is especially so in the light of Theresa May's very strong rhetoric and plans to trigger Article 50 of the Treaty on European Union (TEU) by the end of March 2017 (now pending the final backing of the British parliament, following the vote to amend the government's Brexit bill in the House of Lords),[1] and the UK's negotiating aims disclosed on 17 January 2017.[2]

Article 50 TEU states that "the Union shall negotiate and conclude an agreement with the State [wishing to leave the EU], setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union" within two years following the formal notification of its intention to leave,[3] which could make the UK exit the EU as soon as April 2019, or earlier, if the talks collapse. Once the UK government takes this step, negotiations on the nature of the post-Brexit EU-UK relationship will be expected to focus on trade relationships between the two entities, with each side looking to get the best possible outcome from an economic and public finance, but also political perspective. This is likely to be an arduous process of unprecedented complexity, with both sides presenting tough stances. Considering the interconnections between access to the EU single market and possible contributions to the EU budget, acceptance of EU jurisdiction and the freedom of movement principle, public opinion is expected to play a major role in shaping the final agreement framework. In such a context, the appetite for political gains on both sides of the Channel could lead to suboptimal economic outcomes.

On the one hand, in her speech of 17 January 2017 and in the White Paper on "The United Kingdom's exit from and new partnership with the European Union" presented to the UK Parliament this February,[4] May ruled out single market membership, a full Customs Union (that would include Common Commercial Policy and Common External Tariff), European Court of Justice jurisdiction, and "vast contributions to the EU", while promising to deliver full control of immigration. At the same time, referring to the single market, she said that the country would "seek the greatest possible access to it through a new, comprehensive, bold and ambitious free trade agreement" and confirmed "there may be some specific European programmes" in which the UK may want to take part. She also expressed a willingness to conclude a customs union agreement with the EU that would allow "tariff-free trade with Europe and cross-border trade there to be as frictionless as possible". On the other hand, the EU's current agreements with other member states and stance on so-called 'cherry-picking' seem to rule out such a set of

[1] Rayner, G., Hope, C., McCann, K., "Theresa May plans to trigger Brexit in two weeks despite defeat by 'posturing' Lords over rights of EU citizens", The Telegraph, 02.03.2017, http://www.telegraph.co.uk/news/2017/03/01/brexit-lords-vote-debate-theresa-may-pmqs-live/

[2] May, T., "The government's negotiating objectives for exiting the EU: PM speech", 17.01.2017, https://www.gov.uk/government/speeches/the-governments-negotiating-objectives-for-exiting-the-eu-pm-speech

[3] Poptcheva, E.-M., European Parliament Briefing: "Article 50 TEU: Withdrawal of a Member State from the EU", European Parliamentary Research Service, PE 577.971, February 2016, http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/577971/EPRS_BRI(2016)577971_EN.pdf

[4] May, T., "The United Kingdom's exit from and new partnership with the European Union", February 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf

proposals. Moreover, the framework of the UK's future relationship with the EU still seems not to have been articulated clearly enough by the British government to allow for successful negotiations.[5]

There have been a number of pre- and post-referendum publications, presenting cost-benefit analyses of the UK's membership of the EU, the EEA, and WTO, and focusing on the current and future shape of trade relations between the UK and the EU.[6] However, the terms on which the UK would leave the EU carry vital implications for the EU budget as well. The magnitude of this issue gained visibility during the negotiations leading to the adoption of an EU budget for 2017, which were accompanied by a growing concern of how Brexit will impact the EU's financing.[7]

The UK has been one of the main contributors to the EU budget, both in gross and net terms, contributing on average 11% of EU revenue in the years 2007-2015 (after the UK rebate), and the number is expected to be around 13% in 2016-2017. In 2015, the total EU revenue amounted to EUR 146 billion, with own resources accounting for EUR 137.3 billion (0.94% of EU GNI, well below the 1.23% limit). According to the 2015 EU financial report, gross UK contributions reached EUR 21.4 billion[8] that year – which equals 14.7% of the EU's total revenue, 15.6% of the EU's own resources, or 0.15% of EU GNI. Taking into account the UK rebate, the EU could end up being deprived of as much as 18.8% of its revenue in static terms, with a dynamic impact on its economy (due to reputation costs, descaling, less efficient distribution of resources, etc.) expected to be much higher. Even though 0.19% of EU GNI may not seem financially impressive from the perspective of a whole EU economy, the political weight of these EUR 27.5 billion in the current context is vitally important. Other net contributors to the EU budget, including first and foremost Germany, have already indicated that they would not simply cover this gap.

This paper attempts to examine the specific issue of the implications of Brexit on the EU budget and its fragile political context involving net recipients, net payers, and painstakingly negotiated agreements. While the matter has gained some attention from other researchers,[9] we argue that Brexit's influence on the EU budget could be crucial in the current political context and is more of a threat than opportunity, and we propose a range of policy recommendations for the EU and member states that could be implemented at least partially before the new MFF comes in place. Depending on the arrangements in the financial framework for after 2020, these could then either be replaced or maintained to a suitable extent to cover the structural gap left after Brexit. Their added value lies in a balanced and straightforward, comprehensive approach that should be possible for the whole EU27 to accept.

In our analysis, we consider numbers from 2014 and 2015 and their average as a basis for calculations of the possible EU budget gap after Brexit, as they can give an idea of an ordinary financial year. While some researchers have followed a similar approach, others like Núñez Ferrer and Rinaldi, whose paper is among

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[5] Duff, A., "Brexit: the launch of Article 50", EPC Discussion Paper, 09.02.2017, http://www.epc.eu/pub_details.php?cat_id=17&pub_id=7417

[6] See e.g. Miller, V., Briefing Paper: "Exiting the EU: impact in key UK policy areas", House of Commons Library, No. 07213, 12.02.2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213#fullreport; Busch, B., Matthes, J., IW Report: "Brexit – The Economic Impact: A Meta-Analysis", Cologne Institute for Economic Research (IW Köln), No. 10/2016, 08.04.2016, http://www.iwkoeln.de/en/studies/beitrag/berthold-busch-juergen-matthes-brexit-the-economic-impact-277405

[7] See e.g. De La Baume, M., Ariès, Q., "Brexit throws EU budget off course", POLITICO, 26.10.2016, http://www.politico.eu/article/brexit-throws-eu-budget-off-course-uk-jes-geier-europe/

[8] European Commission, Financial Report 2015, http://ec.europa.eu/budget/financialreport/2015/lib/financial_report_2015_en.pdf

[9] See e.g. Núñez Ferrer J., Rinaldi, D., "The Impact of Brexit on the EU Budget: A non-catastrophic event", CEPS Policy Brief, 07.09.2016, https://www.ceps.eu/system/files/Impact%20of%20Brexit%20on%20EU%20budget.pdf; Haas, J., Rubio, E., "Brexit and the EU Budget: Threat or Opportunity?", Jacques Delors Institut – Berlin Policy Paper No. 183, 16.01.2017, http://www.delorsinstitut.de/2015/wp-content/uploads/2017/01/BrexitEUBudget-HaasRubio-JDI-JDIB-Jan17.pdf

the ones most quoted on the topic so far,[10] base their considerations solely on the year 2014. While we agree that the year 2015 would not be representative on its own, we assume that 2014 would not be either given past developments and projections, even if they can be treated only as rough forecasts under the current circumstances.[11] Also, Núñez Ferrer and Rinaldi seem to assume that the financial gap would not be catastrophic, not least due to the effect of the rebate and the UK's receipts from the EU budget. However, we consider an assumption that EU27 contributions to the EU budget made in the framework of the UK rebate could be maintained in the long term, politically controversial and not sustainable beyond 2020. The same applies to the assumption that EU expenditure could be simply lowered in different areas by the amount received by the UK there. While we develop a similar argument in this paper, at the same time we consider that such measures could rather be a temporary fix or accompanied by other budget changes, given e.g. that the area of research is becoming increasingly important for a number of member states and would suffer a large funding decrease if the amount received by the UK were scrapped.

Haas and Rubio also offer a noteworthy analysis of the issue.[12] However, they make the assumption that "a loss of the British net contribution to the EU budget translates into a yearly budget gap of EUR 10 billion" as a starting point for their considerations, based on an average of the years 2014 and 2015. Taking into account that the UK rebate would disappear after Brexit, we argue that a net gap calculated in this way could actually reach EUR 16.6 billion. Haas and Rubio also estimate that the UK's gross contribution to the EU budget under a Norwegian scenario would equal EUR 5.9 billion yearly. Nonetheless, in their analysis they do not differentiate between the country's potential payments to the EU budget and those going directly to the member states, which we find important when presenting the most accurate findings possible.

As far as the use of data is concerned, as the numbers from various sources display important differences, we refer to EU data where available. Official EU figures also facilitate comparisons between member states and associated countries, whereas e.g. the UK Treasury, while also providing comprehensive data, does so mainly for the UK only. Therefore, numbers from sources other than the EU are only used when they are judged relevant and reliable.

[10] Núñez Ferrer J., Rinaldi, D., "The Impact of Brexit on the EU Budget: A non-catastrophic event", *op. cit.*
[11] UK's net contribution to the EU budget in 2014 was lowest since 2009 and almost two times smaller than in 2015. Moreover, both EU and UK official estimates indicated that the gross UK payments to the EU budget in the upcoming years would amount more or less to the average between 2014 and 2015 UK's gross contributions.
[12] Haas, J., Rubio, E., "Brexit and the EU Budget: Threat or Opportunity?", *op. cit.*

Background and state of play

The UK has contributed to the EU budget since joining the Community in 1973. In the first year of its accession to the EU, the UK paid 425.3 million European Units of Account (EUA) to the common budget[13] – a gross figure that rose by more than 50 times over the past years to amount to EUR 21.4 billion in 2015.[14] The UK's public sector receipts have increased since 1973 as well, however not to a comparable extent, which resulted in the UK absolute net contributions to the EU budget also steadily gaining importance over time. According to HM Treasury, the UK public sector was the net recipient of EU funds only once in 1975, receiving GBP 56 million[15] (around EUA 100 million).[16]

When Margaret Thatcher fought for the UK rebate at the 1984 Fontainebleau European Council, she was famously quoted as claiming "her money back".[17] Succeeding in receiving the unique correction to its EU contribution, which has been jointly compensated by all other member states, the UK obtained from the EU over EUR 117.2 billion between 1985 and 2015 on this basis – a figure close to the EU's spending on all member states in 2015.[18] As the correction is made before the UK makes any payments to the common budget, the UK contributes less rather than it receives money back. It can be seen that the rebate on the UK's contribution to the EU has had a considerable impact on the EU budget, so in case of Brexit it would broaden the financial gap in the EU budget caused by a possible stop in UK payments. In some recent years, the amount of the UK correction even came close to the level of UK receipts from the EU budget.[19]

Apart from the rebate, the UK's gross contribution has been mitigated since 2006 by the Justice and Home Affairs (JHA); an adjustment attributed to Denmark and Ireland as well. However, its impact is smaller than that of the rebate, amounting to tens rather than thousands of millions of euros.

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[13] European Commission, Financial Report 2007, http://ec.europa.eu/budget/library/biblio/publications/2007/fin_report/fin_report_07_en.pdf

[14] European Commission, Financial Report 2015, *op. cit.*

[15] Keep, M., Briefing Paper: "EU budget and the UK's contribution", House of Commons Library, No. 06455, 27.06.2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06455#fullreport

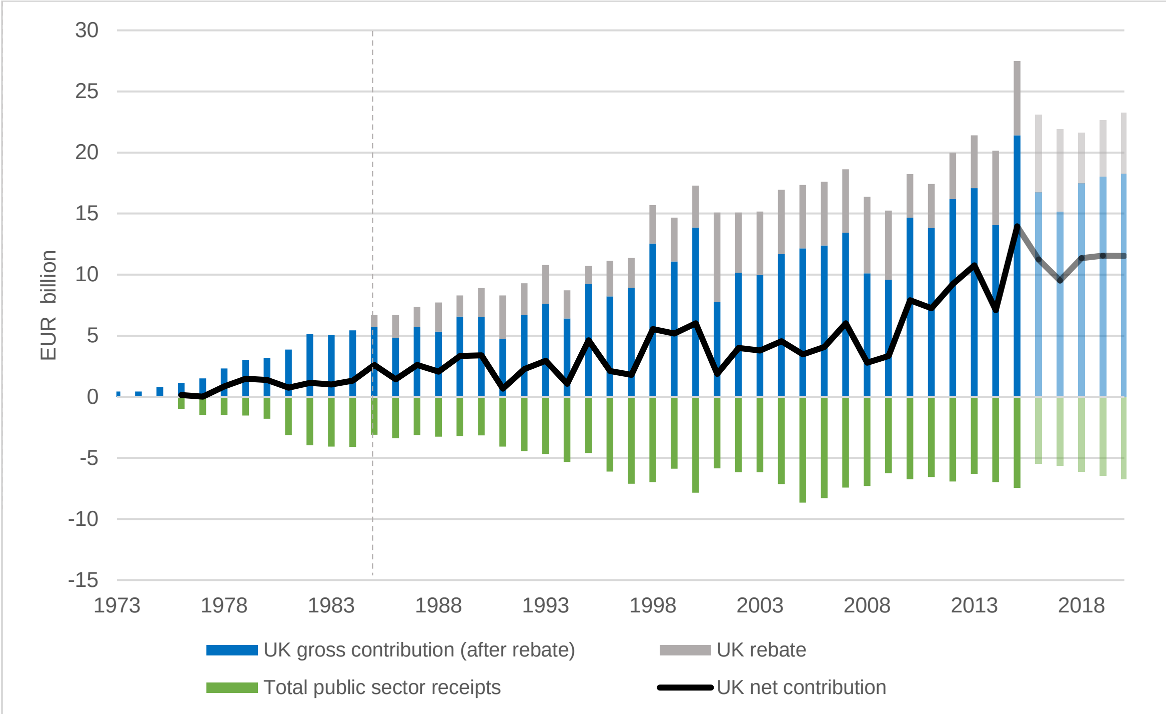
[16] All exchange rate calculations in this paper are based on the Eurostat data, unless stated otherwise. Eurostat exchange rates data from January 1971 until June 1974 are theoretical EUA rates based on the EUA basket. See: Eurostat, Database: "Euro/ECU exchange rates - annual data (ert_bil_eur_a)", 11.08.2016, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ert_bil_eur_a&lang=en

[17] Gotev, G., "UK reimbursed in excess of €111 billion by EU since 1985", EurActiv.com, 23.05.2016, https://www.euractiv.com/section/uk-europe/news/the-thatcher-rebate-uk-reimbursed-in-excess-of-e111-billion-by-eu-since-1985/

[18] EU spending on member states in 2015 amounted to €130.1 billion. See: European Commission, Financial Report 2015, *op. cit.*; European Commission, "Financial report 2008", 2009, http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf;

[19] In fact, the UK rebate even surpassed UK receipts from the EU in 2001. The rebate was then unusually high due to the combined effect of the simultaneous increase of the corrections relative to several years, and the fact that all these corrections were budgeted that same year. European Commission, "Financial report 2008", *op. cit.*

Chart A1. UK contributions to (1973-2020) and receipts from (1976-2020) the EU budget (EUR billion)

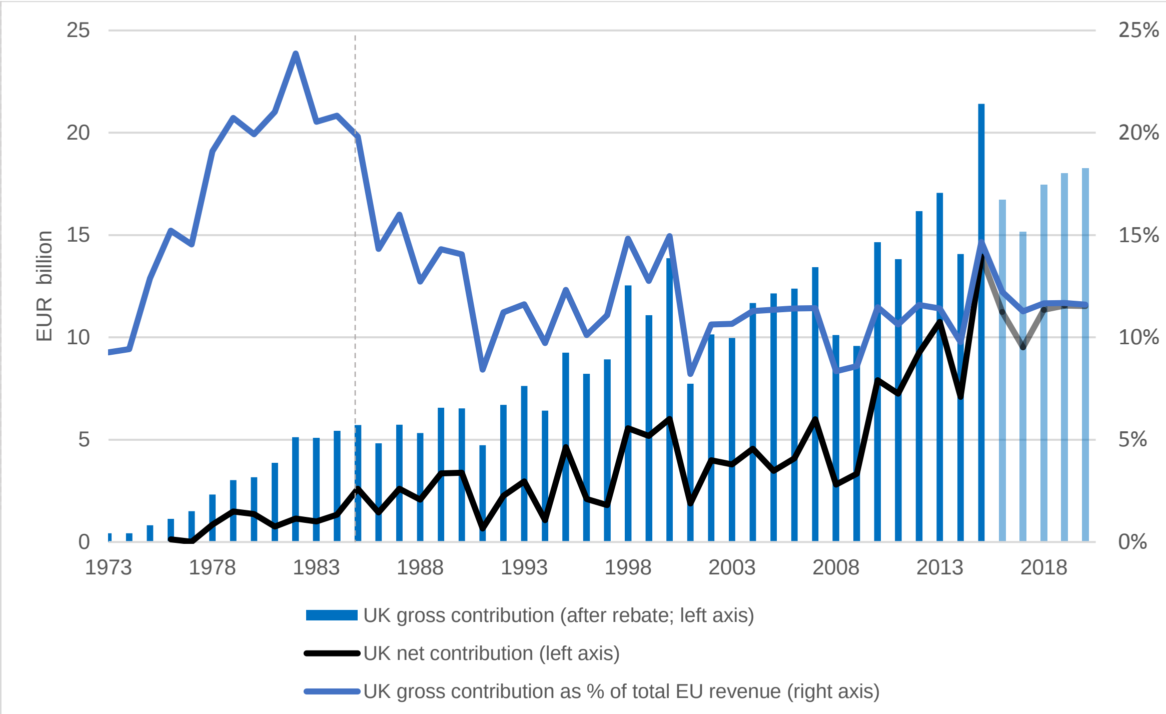


Source: Calculations based on: For years 2007-2015 EU financial reports 2007-2015; for 2016-2020 Office for Budget Responsibility, "Economic and fiscal outlook supplementary fiscal tables: expenditure – November 2016", Table 2.27 "Transactions with the EU in € billion, calendar year, on a 'no referendum' counterfactual basis", 29.11.2016, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016.
Note: Comparable data on public sector receipts in 1973-1975 is not available. Figures in years 2016-2020 are projections.

Equalling EUR 14.1 billion in 2014, the total UK gross contribution to the EU budget rose to EUR 21.4 billion in 2015.[20] This was an all-time high in absolute terms, and an amount almost EUR 5 billion higher than the EUR 16.4 billion assumed in the originally adopted budget.[21] The amending budget no. 6 to the general budget 2016 and the budget adopted for 2017 estimate that the UK gross contribution in the following financial years will decrease to about EUR 18 billion[22] and EUR 17.3 billion[23] respectively (EUR 24.5 billion and EUR 22.6 billion before the rebate). Forecasts from the Office for Budget Responsibility (OBR) show a similar trend, also when it comes to the UK net contributions (see Table I.1 in Annex I for detailed figures).[24]

[20] Figures for 2014 and 2015, when studied against the background of past and projected figures for 2012-2020, constitute two extremes when it comes to the amount of the UK's gross contributions to the EU budget. Eurostat and ONS projections point that the gross contributions in 2016 and 2017 should fall between these values.
[21] See: European Commission, Adopted budget 2015, Official Journal of the European Union, L69/12, 13.03.2015, http://eur-lex.europa.eu/budget/data/General/2015/en/GenRev.pdf
[22] European Parliament, "Amending Budget No 6 of the EU for the financial year 2016", 01.12.2016, http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=OJ:L:2017:052:FULL&from=en
[23] European Parliament, "EU's general budget for the financial year 2017", 01.12.2016, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:051:TOC
[24] EU forecasts for the UK public sector receipts and thus net contribution appear not to be available.

Chart A2. UK gross contributions (1973-2020) and net contributions (1976-2020) to the EU budget (EUR billion, percentage of total EU revenue)



Source: Calculations based on: For years 2007-2015 EU financial reports 2007-2015; for UK contributions 2016-2020 Office for Budget Responsibility, "Economic and fiscal outlook supplementary fiscal tables: expenditure – November 2016", *op. cit.*; for EU revenue 2016 European Parliament, "Amending Budget No 6 of the EU for the financial year 2016", 01.12.2016, http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=OJ:L:2017:052:FULL&from=en; for EU revenue 2017 European Parliament, "EU's general budget for the financial year 2017", 01.12.2016, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:051:TOC; for EU revenue 2018-2020 European Commission, "Annex I to the Communication from the Commission to the Council and the European Parliament: Technical adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes", COM(2016) 311 final, 30.06.2016, http://ec.europa.eu/budget/mff/lib/COM-2016-311/COM-2016-311-ANNEX_en.pdf.
Note: Comparable data on public sector receipts in 1973-1975 is not available. Figures in years 2016-2020 are projections.

While the absolute amounts of the UK's gross and net contributions have been rising since its accession to the EU, the level of gross payments relative to total EU revenue remained rather stable throughout the years since the introduction of the UK rebate in 1985, averaging around 12%.[25] Estimates for the period 2016-2020 based on OBR forecasts also indicate this value.

When comparing the UK's position regarding overall spending and receipts with the rest of the member states, the UK's payments taken as a percentage of the country's GNI rank it as one of the smallest contributors to the EU budget. In the last nine years it was the last member state on the list six times, paying only more than the Netherlands in 2009, Croatia in its EU accession year – 2013, and Greece and Austria in 2015 (when the final UK payments were eventually much higher than assumed in the originally

[25] Before the rebate was introduced, the UK obtained some negotiated refunds between 1980 and 1985. See e.g. Keep, M., "EU budget and the UK's contribution", House of Commons Library Briefing Paper No. 06455, 27.06.2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06455#fullreport

adopted budget). At the same time, the UK stays relatively close to the top of the member states list when it comes to the absolute level of receipts from the EU (see Table I.2 in Annex I for detailed figures).

Chart B1. Yearly average member state contributions to EU budget in 2007-2015 (% of individual GNI)

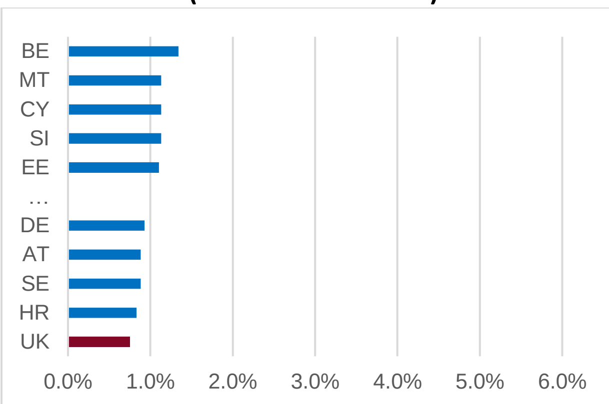


Chart B2. Yearly average member state contributions to EU budget in 2007-2015 (EUR million)

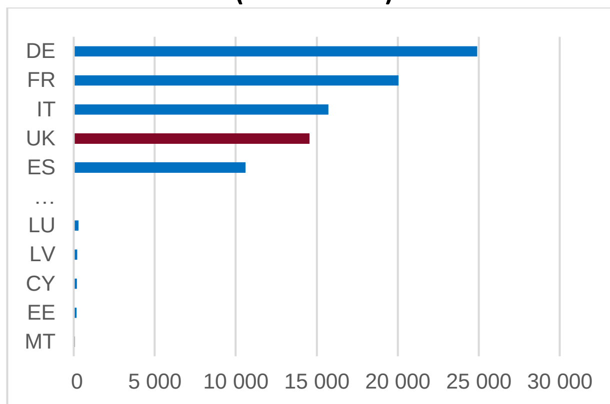


Chart B3. Yearly average member state receipts from EU budget in 2007-2015 (% of individual GNI)

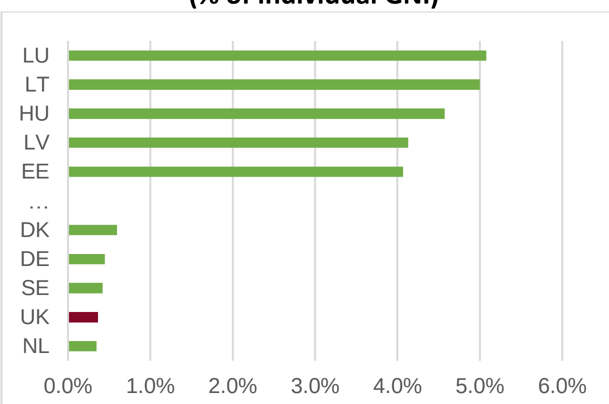
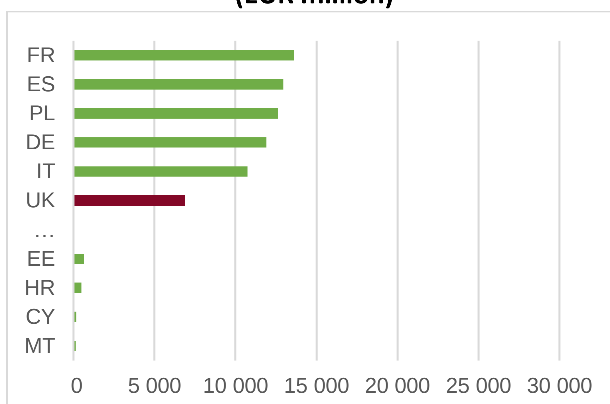


Chart B4. Yearly average member state receipts from EU budget in 2007-2015 (EUR million)



Source: Calculations based on EU financial reports 2007-2015.

Nonetheless, the UK remains also one of the smallest beneficiaries of EU funding relative to its GNI, as well as one of the biggest payers to the EU budget both in gross and net amounts, with yearly gross figures reaching 10.9% of EU revenue on average in 2007-2015 and more recently 9.8% in 2014 and 14.7% in 2015.

Implications of the UK's withdrawal: Critical areas and potential pre-Brexit impact

Loss of EU budget revenue linked directly to the UK's membership could amount to EUR 20-27 billion, i.e. 14-19% of total EU revenue (including UK payments and rebate). We try to predict more closely where the challenges regarding financing drop and thus distribution of expenditure could be the greatest for the EU budget. An examination of relations between the total EU expenditure and UK public sector receipts from the EU budget by EU category of expenditure in the current Multiannual Financial Framework (MFF) allows specific areas to be identified in which the UK received the most financing and the ones from which it benefited the least in 2014 and 2015 in absolute and relative terms. Broadening the observation with other member states' public sector receipts makes it possible to specify the UK's position against this background (see Table II.1 in Annex II for detailed findings).

As regards the areas in which the UK benefited the most from the EU budget, one expenditure heading can be particularly highlighted – the Common Strategic Framework (CSF) Research and Innovation, the crucial part of which is the **Framework Programme for Research and Innovation (Horizon 2020)**.[26] In 2014 only Germany obtained more funding in this field than the UK, which received EUR 796.5 million in total, accounting for 10.4% of all EU expenditure in this field. In 2015, the UK reached the top of the member states' list, with EUR 1.3 billion, i.e. 12.8% of EU expenditure in this area.

While the UK holds a very strong position here, it was a net contributor to the EU budget in the field of research and innovation last year. However, it was a net recipient in 2014 as well as in 2007-2015 if all funding from this period was taken as a whole. Interestingly, considering the nature of funding under Horizon 2020, the **UK's net position in this area could worsen even before the formal Brexit, while the UK is still officially a member state**; not least because of the uncertainty as to whether British partners would be able to stay involved in long-term projects, e.g. in the case of consortia.[27] As the example of Switzerland shows, such a scenario is highly realistic.[28] Similar course of action could also affect other UK receipts from different categories of the EU budget, where the development of projects can take more time than there would be left before the UK's withdrawal from the EU. As a result, the **UK's net contributions to the EU budget might be higher prior to the termination of its membership than they would have been in this period without Brexit in perspective, if the EUR-GBP exchange rate remained stable**. A depreciation of the sterling could have a double effect. First, if depreciation takes place during the course of a year, as in 2016, the UK's gross payments in euros would become lower. This is because the EU budget contributions are initially set in euros, but then converted to national currencies at a rate established at the time of adoption

[26] EU expenditure on Horizon 2020 constituted 97% and 96.4% of spending on Research and Innovation in 2014 and 2015 respectively. The other money in this category was attributed to Euratom Research and Training Programme.
[27] Sample, I., "UK scientists dropped from EU projects because of post-Brexit funding fears", 12.07.2016, https://www.theguardian.com/education/2016/jul/12/uk-scientists-dropped-from-eu-projects-because-of-post-brexit-funding-fears; Gorman, J., "It's not 'business as usual' until Brexit. UK scientists are already feeling the effects", The Guardian, 12.07.2016, https://www.theguardian.com/education/2016/jul/12/its-not-business-as-usual-until-brexit-uk-scientists-are-already-feeling-the-effects
[28] Despite its high involvement in this field, Switzerland's receipts in the area of research dropped as a result of a limited association with the programme, and the uncertainty created by a possible ending of the cooperation at the end of 2016. Receipts dropped despite the fact that the Government's stated objective remained the country's full association with Horizon 2020 from 2017 onward. Swiss Government, "Facts and figures on Swiss participation in European framework programmes for research", 21.01.2016, https://www.admin.ch/gov/en/start/dokumentation/medienmitteilungen.msg-id-60389.html

of the budget for a given year – member states then pay the amounts given in their currencies. A drop in the sterling's value in 2016 already left a hole of around EUR 1.7 billion in EU budget revenues in the previous year, which the EU may compensate mainly by income from fines.[29] Second, following the same rules, a lower sterling may cause higher contributions of the UK in its currency in the next years. At the same time, contributions in euros might decline, as a weaker sterling can make the UK's economy look smaller.

Another heading that is worth mentioning is the 'Sustainable growth: natural resources' category, broadly translated into the Common Agricultural Policy (CAP) – encompassing the European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) – as well as, to a much smaller extent, the Common Fisheries Policy (CFP), which together constituted over 99% of all EU funding in this field both years (CAP – 98%, CFP – 1%). In this area, the UK received the largest part of its receipts from the EU in absolute terms (EUR 4 billion in 2014 and EUR 3.8 billion in 2015). In relative numbers, the UK received here a higher than average return from the EU budget (except for the CFP in 2015), but remained a net contributor.

When it comes to the UK's net position in general, the country was a net recipient of EU funding in five areas in 2014. Apart from research funding (where the UK received 10.4% of overall EU expenditure), all categories fall under the 'Security and Citizenship' heading: 'Pilot projects and preparatory actions' (17.1%), 'Food and feed' (16.6%), 'Justice Programme' (13.2%) and 'Asylum, Migration and Integration Fund' (11.1%). In 2015, the UK was a net recipient in one field – 'Food and feed' – with 20%. With the aim of protecting public health and economic sectors linked to the food chain, EU expenditure in this area supports safety along the food chain, particularly through the prevention, monitoring and eradication of animal and plant diseases, while strengthening control activities.[30] In addition to covering the CAP gap, implementing similar policies in the UK without EU funding may constitute a difficult challenge for the new Secretary of State for Environment, Food and Rural Affairs and pro-Brexit campaigner, Andrea Leadsom. Considering the original forecasts of gross contributions lower than those in 2015 but higher than those in the year before, it is unlikely that the UK will become a net recipient in more areas than it was in 2014. In addition, the country's projected receipts in some categories might fall due to the uncertainty linked with its approaching withdrawal from the EU.

Finally, the main area where the UK public sector received a smaller share of EU funding than in the others needs to be noted. Even though the UK obtained over EUR 1.7 billion in both years examined for 'Economic, social and territorial cohesion' (of which over EUR 1.6. billion was for investment in growth and jobs each time), its receipts in this field constituted only a little over 3% of total EU spending for this purpose. Despite being one of the biggest EU member states, the UK only ranked 11th when it came to the amount of receipts within this category. While this could therefore be of less concern for the UK government, it could be more so for the EU and its regions that are already bracing themselves for major changes in cohesion policy, regardless of Brexit.[31]

[29] See e.g. Giles, C., "Pound raises cost of Britain's EU budget contribution", Financial Times, 13.11.2016, https://www.ft.com/content/f489beb2-a839-11e6-8b69-02899e8bd9d1; European Commission, "Amending letter No 1 to the Draft General Budget 2017", 17.10.2016, http://ec.europa.eu/budget/library/biblio/documents/2017/amending_letter_1_com679_en.pdf

[30] High UK receipts should be considered in a broader context. As it depends on factors like epidemiological developments, spending distribution in this area among member states may show significant yearly differences. See: D'Alfonso, A., European Parliament Briefing: "How the EU budget is spent: 'Food and feed' expenditure", European Parliamentary Research Service, PE 556.979, April 2015, http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/556979/EPRS_BRI(2015)556979_EN.pdf; European Commission, "Food Chain Funding", http://ec.europa.eu/dgs/health_food-safety/funding/cff/index_en.htm

[31] See e.g. Schneider, M., "Draft opinion on the Future of Cohesion Policy beyond 2020" (to be adopted on 11.05.2017), Committee of the Regions, http://cor.europa.eu/en/activities/opinions/pages/opinion-factsheet.aspx?OpinionNumber=CDR%201814/2016; Molica, F., Lampropoulos, N., "Is cohesion policy under threat?", 02.03.2016,

EU budget in the context of UK membership alternatives

Despite a hard Brexit becoming more and more likely,[32] especially in view of Theresa May's negotiating objectives, the UK's withdrawal from the EU should not yet be regarded as putting a definite end to any kind of UK payments to the EU budget. While the British prime minister claimed that the UK's "vast contributions to the EU" would end, she also confirmed that the country could "make an appropriate contribution" for participation in some European programmes. Moreover, despite the prime minister's words, it is too early to say that payments will end there.

The EU as a whole is the UK's most important trading partner, even though its importance has declined in the past. The share of the UK's exports of goods to the EU fell from 60.8% in 1999 to 44.4% in 2015, while imports decreased from 54.8% to 53.6% in the same period (the number has been improving since 2012, though).[33] As regards services, UK exports to the EU dropped from 40.5% to 38.3%, and imports from 55.3% to 48.4% in 1999-2015.[34] Although this relationship may be reviewed following Brexit, economic ties between the two entities are expected to remain significant. In order to continue cooperation with the EU on preferential terms, the UK will need to enter into some kind of a new trade arrangement with the EU, which May imagines as "comprehensive, bold and ambitious".

On the one hand, May officially ruled out single market membership, acceptance of freedom of movement of persons, EU jurisdiction, and vast EU budget contributions. However, on the other hand, she expressed willingness to retain British participation in selected EU programmes and achieve the "greatest possible access" to the single market, possibly including "the freedom to provide financial services across national borders" – a field where the UK benefits from a substantial trade surplus.[35] When set against the background of the EU's position on single market access,[36] arrangements concluded with different groups of countries, and a strong political will not to make withdrawal from the Union look like an attractive membership alternative, a deal shaped according to the British prime minister's wishes appears not to be feasible. It thus remains to be seen what kind of concessions the UK will be willing to make, and whether the approach "better no deal than a bad deal" will stand in its current interpretation. In the end, it is not only about what the UK and the EU aim for, but what they need. The UK's political claims may appear appealing to the British electorate at the moment, but at some point during the negotiations the economic

http://www.euractiv.com/section/euro-finance/opinion/is-cohesion-policy-under-threat/

32 See e.g. Zuleeg, F., "What kind of Brexit?", EPC Commentary, 04.11.2016, http://www.epc.eu/documents/uploads/pub_7117_what_kind_of_brexit.pdf

33 Eurostat, Database: "Intra and Extra-EU trade by Member State and by product group (ext_lt_intratrd)", 01.04.2016, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en

34 Busch, B., Matthes, J., IW Report: "Brexit – The Economic Impact: A Meta-Analysis", *op. cit.*

35 See e.g. Miller, V., "Exiting the EU: impact in key UK policy areas", *op. cit.*; Busch, B., Matthes, J., "Brexit – The Economic Impact: A Meta-Analysis", *op. cit.*

36 Jean-Claude Juncker together with other EU leaders argue that there will be no "internal market à la carte" for the UK (see e.g. Jean-Claude Juncker's "State of the Union 2016" speech, 14.09.2016, http://bookshop.europa.eu/en/state-of-the-union-2016-pbNA0216997/

reality will have to be confronted and the UK will have to recognise there are trade-offs between sovereignty and access to the single market.[37]

In this context, even though some of the existing models for cooperation with the EU, like the Norwegian or Swiss-style arrangement, may no longer seem an option for the UK in view of the prime minister's speech on 17 January, or may not be followed by the UK as a template, it remains useful to evaluate them in terms of the potential budget implications and relationship between size of contributions and extent of access to the single market.

Considering the EU's relations with other countries, assumptions concerning the future of the EU-UK economic relationship have been made on numerous occasions using five main different models.[38] However, as the principal aim of this paper is to showcase the implications of Brexit for the EU budget, we propose another approach, presenting scenarios according to the different consequences they carry for the EU budget, and thus also for the UK budget. We follow three models:

1. *Norwegian model*: Participating in the European Free Trade Association (EFTA) and the European Economic Area (EEA);
2. *Swiss model*: Joining EFTA and signing bilateral agreements;
3. *Default model*: Entering the customs union like Turkey, signing an association agreement like Ukraine, concluding a deal like the Comprehensive Economic and Trade Agreement (CETA) with Canada, or relying on the World Trade Organisation (WTO) framework.

1. Following northern lights

By joining EFTA and EEA like Norway, Iceland and Liechtenstein, the UK could obtain participation in the EU Internal Market and secure the best level of economic stability, if its application were accepted. Nevertheless, this approach is also likely to be one of the most costly options considered in this paper both in financial[39] and political terms, at least in a short timeframe. In addition to justifying ongoing payments to the EU budget, the UK government would also have to accept EU jurisdiction and the freedom of movement of persons. The EEA Agreement is indeed based on the principle of free movement of goods, persons, services and capital. However, it does not cover the CAP, CFP, trade policy, customs union or economic and monetary union, foreign and security policy, and JHA[40] – exclusions which could be politically attractive for the UK. As the biggest EEA EFTA member, Norway's example is used to estimate the UK's possible contributions to the EU budget if it were to enter the EEA or somehow negotiate similar access to the single market without accepting freedom of movement and EU jurisdiction.

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[37] See also: The Economist, "Norway's deal with the EU still holds lessons for Britain", 04.02.2017, http://www.economist.com/news/europe/21716039-sooner-or-later-britain-will-face-trade-offs-between-sovereignty-and-access-norways-deal?fsrc=scn/fb/te/bl/ed/norwaysdealwiththeeustillholdslessonsforbritain

[38] Norway, Switzerland, Canada, Turkey and WTO model. See e.g. Bowers, P., Lang, A., Miller, V., Smith, B., Webb, D., Briefing Paper: "Brexit: some legal and constitutional issues and alternatives to EU membership", House of Commons Library, No. 07214, 28.07.2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7214#fullreport

[39] Here we refer only to the potential amount of money flowing from the UK budget to the EU budget. The impact of economic situation on the UK budget is not taken into account.

[40] With the exception of Norway, which takes part in JHA and defence policy initiatives.

Table 1. Norway's total and yearly average contributions to the EU and EEA/EFTA (EUR million) in absolute terms in periods 2007-2013 and 2014-2020

	total 2007-2013	average 2007-2013	total 2014-2020	average 2014-2020
Direct contributions to EU budget:	**1979.1***	**275.7***	**3346,0***	**478.0***
Participation in EU programmes (as member of EEA EFTA or on basis of bilateral agreements)	*1715.6*	*245.1*	*3129.0*	*447.0*
Cooperation in the field of JHA	*42.0**	*6.0**	*42.0**	*6.0**
Programmes under the European Territorial Cooperation INTERREG	*221.5**	*24.6**	*175.0*	*25.0*
Autonomous contributions:	**2263.4**	**323.3**	**2739.9**	**391.4**
EEA Grants	*1204.8*	*172.1*	*1486.2*	*212.3*
Norway Grants	*1058.6*	*151.2*	*1253.7*	*179.1*
Payments to budgets of EFTA and its supervisory bodies:	**166.7**	**23.8**	**195.3***	**27.9***
EFTA budget	*66.9*	*9.6*	*81.9**	*11.7**
ESA budget	*75.5*	*10.8*	*84.9**	*12.1**
EFTA Court budget	*24.4*	*3.5*	*28.5**	*4.1**
Total Norway's contribution	**4409.2***	**622.9***	**6281.2***	**897.3***

Source: Calculations and estimates based on data from EFTA, Annual Reports 2007-2015, http://www.efta.int/publications/annual-report; Norwegian Mission to the EU, "Norway's financial contribution", 11.06.2013, http://web.archive.org/web/20140316010851/http:/www.eu-norway.org/eu/Financial-contribution/#.WBd3Hi0rKUk; Norwegian Mission to the EU, "Norway's financial contribution", 10.08.2016, http://www.eu-norway.org/eu/Financial-contribution/#.WBdkKS0rKUk; Norwegian Mission to the EU,"Norway's participation in EU programmes and agencies", 10.08.2016, http://www.eu-norway.org/eu/Coopperation-in-programmes-and-agencies/#.V7xIDfl96Uk; EEA Grants – Norway Grants, "Annual Status Report 2011", March 2012, http://eeagrants.org/content/download/5908/65376/version/2/file/EEA+Norway+Grants+-+administrative+Annual+report+2011.pdf; EEA Grants – Norway Grants, Factsheet: "EEA and Norway Grants 2009-2014", June 2015, http://eeagrants.org/content/download/6840/83904/version/11/file/EN_Generic_FS+update_June2015_FIN_WEB.PDF; EEA Grants – Norway Grants, Factsheet: "EEA and Norway Grants 2014-2021", May 2016, http://eeagrants.org/Results-data/Documents/Publications/Factsheets/Thematic-factsheets/EEA-and-Norway-Grants-2014-2021-May-2016; EFTA, "Contributions to the EFTA budget 2016", http://www.efta.int/About-EFTA/EFTA-Budget-748; ESA, Annual Reports 2007-2015, http://www.eftasurv.int/press--publications/annual-reports/; EFTA Court, Financial Statements 2007-2014, http://www.eftacourt.int/the-court/jurisdiction-organisation/financial-statements/

Note: The acronym ESA in the table below refers to the EFTA Surveillance Authority, which monitors compliance with EEA rules in Norway, Iceland and Liechtenstein. For EEA and Norway Grants the implementing period and averages are for seven years between 2007-2014 and 2014-2021. Figures marked with an asterisk are estimates. For payments to budgets of EFTA and its supervisory bodies, estimates are calculated based on trends in contributions between 2007-2016 for EFTA, 2007-2015 for ESA and 2007-2014 for the EFTA Court. Due to rounding, totals may not exactly correspond to the sum of individual items.

Table 1 presents Norway's financial contributions linked to its cooperation with the EU. EEA EFTA country's payments can be generally divided into direct contributions to the EU budget (linked to participation in programmes and agencies),[41] autonomous contributions agreed on directly with eligible member states (related to cohesion), and payments to EFTA and its institutions' budgets. While all of them are related to cooperation with the EU, only the first two flow to the EU itself, with the first one going to the EU budget and the second directly to eligible member states.

This constitutes a major difference between contributions of an EEA EFTA country and an EU member state, with a substantial impact on the EU budget. **While a member state's contributions linked to**

[41] EFTA, "EU Programmes with EEA EFTA Participation 2014-2020", http://www.efta.int/eea/eu-programmes

cooperation with the EU currently equal its payments to the EU budget, this is not the case if the country follows the EEA EFTA model. Therefore, when making estimates of the UK's potential payments under the Norway model, contributions to the EU budget, autonomous contributions to selected member states, budget payments to EFTA and its institutions, and all contributions related to cooperation with the EU are considered separately. Estimates are compared with the UK's average real payments to the EU budget in the timeframes 2007-2013 and 2014-2015.[42]

Two scenarios are envisaged for the purpose of economic estimates. In the first one it is assumed that all expenditures related to cooperation with the EU are relative to the GDP of the contributing country, and in the second one that EU budget payments are relative to GDP, while the amounts of the country's autonomous payments as well as EFTA, ESA and EFTA Court budget contributions are relative to the size of its population. It cannot be excluded that for political reasons EFTA EEA states could ask for a higher than proportional contribution from the UK, e.g. to the internal budget. Actual contributions could be higher in such cases than presented estimates. For detailed figures and more information on methodology please see Annex III.

From the **UK budget perspective**, when considering the gross amounts in both periods, i.e. 2007-2013 and 2014-2015, it is estimated that the UK's expenditure related to cooperation with the EU as a member of EEA EFTA would be over three or two times smaller, depending on the scenario. These differences are less significant when looking at the net payments. Numbers for the period 2007-2013 show that the net contribution could be more than two times smaller in the first scenario, but fall only by less than 27% in the second. Reference period 2014-2015 indicates a similar pattern in the first scenario, while indicating a 35% decrease in the second. UK net contributions relative to the size of gross contributions would therefore rise under the Norway model when compared to the current situation. This imbalance could be expected to be even greater, as **only the direct contributions to the EU budget from among all the fields of expenditure related to cooperation with the EU are linked with potential financial receipts**. However, it is weakened by the fact that the UK's effectiveness in receiving funds from programmes in which EEA EFTA states have participated has been higher than average when all EU programmes are taken as a reference. If the UK's future performance were worse than estimated, the mentioned imbalance could deepen.

Analysing amounts that would potentially go directly to the EU budget reveals the extent of the challenge with which the EU may soon be confronted. Looking at figures from 2014-2015 from the **EU budget perspective, UK gross contributions would have been more than 6 times lower** if the country followed the Norwegian model, amounting to around EUR 2.8 billion rather than the EUR 17.7 billion that the UK has actually paid gross to the EU budget on a yearly average in this period. As regards net contributions, the situation could be even more difficult. **Estimates based on the last two years show that net payments in that period could have been 85% lower (amounting to around EUR 1.6 billion) and even 91.8% lower (at about EUR 0.6 billion) if the period 2007-2013 was taken as a reference.**

At the same time, since agriculture and fisheries are not fully covered by the EEA Agreement despite the commitment to progressive liberalisation of trade in these areas, the EU budget revenues are also raised indirectly by Norway through customs duties applied to the agricultural products exported to the EU. This would also likely be the case in the EU-UK post-Brexit relationship under the EEA model. Yearly average

[42] Estimates are not made for the whole period of the current MFF 2014-2020, as, since in the case of the UK they would be based on much broader assumptions than for the period 2014-2015, their accuracy would likely be lower.

value of UK exports of agricultural products to the EU in 2014-2015 equalled EUR 15.9 billion, i.e. 8.7% of total UK exports of goods to the EU.[43] Assuming that this value would remain at the same level post-Brexit and the EU would apply an average tariff of 8.5% to all of it (EU's trade weighted average Most Favoured Nation tariff in 2014),[44] **an additional indirect financial flow of around EUR 1.1 billion could strengthen the EU budget each year** (after deduction of 20% TOR collection costs by the member states). As some preferential terms could be expected in this field under the EEA, differences in tariffs between sectors and products are important, and the EU's trade weighted average MFN tariff varies from year to year (in 2013 it equalled 22.3% for agricultural products),[45] future export value and structure would be important factors in establishing the final amount of additional money flowing to the EU budget. The extent of the customs duties' impact on the EU budget from the UK side post-Brexit under the Norwegian model is thus a rough estimate. However, its size is substantial, giving a total sum of around EUR 3.9 billion coming to the EU budget from the UK in this scenario.

In the case of Norway, its direct payments to the EU budget constituted only around 44.9% of its overall payments to the EEA/EFTA and EU in 2007-2013 and are expected to reach 53.3% in 2014-2020. At the same time, the rest of Norwegian funding (excluding contributions to the budgets of EFTA and its supervisory bodies) is transferred directly to countries eligible for funds against disparities. These states (currently 15, and 16 in the period of previous MFF) have also remained under the Cohesion Fund in the EU framework.[46]

A comparison of Norway's autonomous contributions to the member states and the UK's payments to the Cohesion Fund as an EU member reveals another potentially important point for the EU to focus on when making budget decisions. Regardless of any scenario, findings show that the UK would in fact pay more for the "reduction of economic and social disparities" solely in the less developed member states – a goal included in the EEA Agreement[47] – than it does now. **As a result, if equal spending cuts were made in every budget category and assuming that the proportions of funds received by member states in each field would stay the same as in the current *status quo*, the countries under the Cohesion Fund framework could be less impacted by the budget cuts than other member states and even more money would be available for them specifically for the previously mentioned disparities reduction.** However, the structure of their potential receipts in this area would be changed, as the autonomous contributions are not divided into the same categories as spending under the Cohesion Fund.[48] It also has to be taken into account that Brexit would cause a drop in average EU GNI, which currently serves as a basis to establish the list of member states eligible for funding under the Cohesion Fund. However, we estimate that its impact would be too small to exclude any of the current recipients from the beneficiaries list. Given the above circumstances, when deciding where to decrease funding post-Brexit the EU could be

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[43] Calculations based on data and classification from Eurostat, Database: "EU trade since 1988 by HS2-HS4 (DS-016894)", *please see full link in references*; Eurostat, "Extra-EU trade in agricultural goods", http://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_in_agricultural_goods

[44] WTO, ITC, UNCTAD, "World Tariff Profiles 2016", 2016, https://www.wto.org/english/res_e/publications_e/world_tariff_profiles16_e.htm

[45] WTO, ITC, UNCTAD, "World Tariff Profiles 2015", 2015, https://www.wto.org/english/res_e/publications_e/world_tariff_profiles15_e.htm

[46] European Commission, "Cohesion Fund", 09.09.2015 http://ec.europa.eu/regional_policy/en/funding/cohesion-fund/

[47] EEA Grants – Norway Grants, "Agreement on the European Economic Area",http://eeagrants.org/Results-data/Documents/Legal-documents/EEA-Agreement/EEA-Agreement

[48] Compare e.g. EEA Grants – Norway Grants, "EEA and Norway Grants 2014-2021", Factsheet, May 2016, http://eeagrants.org/Results-data/Documents/Publications/Factsheets/Thematic-factsheets/EEA-and-Norway-Grants-2014-2021-May-2016; Cohesion Fund Regulation, (EU) No 1300/2013, Art. 4, 17.12.2013, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R1300

tempted to favour cuts in the Cohesion Fund or other areas from which countries eligible for it benefit the most (e.g. agriculture and fisheries).

Other than that, based on the 2014-2015 period the UK could pay between EUR 154.7 and EUR 324.7 million to the budgets of EFTA and its supervisory bodies, depending on which scenario is applied.

While the UK would most likely pay less both in gross and net amounts for maintaining cooperation with the EU in the EFTA EEA framework than it does now as an EU member state, it could only receive direct receipts in one area of its spending. There, it could choose some programmes in which it would like to participate, but would also not have access to some others. Considering direct payments, the EU budget would be reduced further than the UK's overall expenditure relating to cooperation with the EU, as autonomous contributions do not flow to it directly and as it does not benefit from EFTA membership fees. At the same time, it might be strengthened by revenue from customs duties. The structure of the funding going to the European Union would thus change and so would its amount.

2. Running like a Swiss watch?

The Swiss model of cooperation with the EU is another option that the UK could potentially adopt. Switzerland is a member of the EFTA, but did not ratify the EEA Agreement, following a negative referendum result. Instead, its relations with the EU are currently based on approximately twenty main and over a hundred additional bilateral agreements, concerning among other things agriculture (but not CAP), research, participation in the Schengen and Dublin agreements, and free movement of persons.[49] However, similarly to EFTA EEA countries, Switzerland is not in a customs union with the EU. In addition, its cooperation with the EU as regards the free movement of services remains limited and complex – it is selectively regulated and uses various instruments. Although Switzerland has struck some deals with the EU with respect to a number of sectors, such as insurance, many of the financial services which are of vital significance to the UK, are still left behind, with e.g. Swiss banks not being granted financial passporting rights.[50]

As in the case of EEA EFTA members, Swiss payments related to cooperation with the EU can be generally divided into different categories, with only some of them going directly to the EU budget, which leads to similar conclusions regarding the situation of the common budget:

- contributions for participation in the different EU programmes, agencies and cooperation arrangements as part of the bilateral agreements (CHF 2.6 billion in total, mainly in 2007-2013).[51] As Switzerland initially planned higher contributions in the MFF 2014-2020, but has participated in fewer programmes and in some to a limited extent until 31 December 2016, the amount of its actual gross

[49] See e.g. Swiss Government, "Bilateral agreements Switzerland-EU", Integration Office FDFA/FDEA, August 2009, http://www.europarl.europa.eu/meetdocs/2009_2014/documents/deea/dv/2203_07/2203_07en.pdf; European Commission, "Trade with Switzerland", 08.04.2016, http://ec.europa.eu/trade/policy/countries-and-regions/countries/switzerland/; Swiss Government, Directorate for European Affairs DEA, "The major bilateral agreements Switzerland–EU", June 2016, https://www.eda.admin.ch/dam/dea/en/documents/folien/Folien-Abkommen_en.pdf

[50] Arnold, M., Binham, C., "UK financial sector targets Swiss-style deal for EU market access", Financial Times, 18.08.2016, https://www.ft.com/content/5cebe746-655a-11e6-8310-ecf0bddad227

[51] Expenditure in some areas started also in 2006, 2008 and 2011. For details see: Swiss Government, Reply to Member of Swiss Parliament L. Reimann "Liste complète des paiements et contributions de la Suisse à l'UE", 28.05.2014, https://www.parlament.ch/fr/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20141019; Swiss Government, "Facts and figures on Swiss participation in European framework programmes for research", *op. cit.*

payments with regard to EU programmes is difficult to predict, especially in euros as the exchange rates are unstable;

- autonomous contributions for 13 EU member states aimed at the reduction of economic and social disparities in the enlarged EU (CHF 1 000 million from June 2007 with CHF 257 million added in December 2009 and CHF 45 million in December 2014)[52] and infrastructure development (CHF 411.9 million with EUR 120 million added until 2020 for a project in Italy).

To this could be added the amounts transferred as part of fiscal agreements between Switzerland and the EU as well as separate implementation costs of some agreements and the EFTA membership fee.

Participation in research programmes has been one of the major objects of agreements between Switzerland and the EU, just like between the EEA and the EU. However, Switzerland managed to attract relatively more funding in this area than Norway. Between 2007 and 2013, Switzerland spent CHF 2.3 billion (around 85.9% of its overall contribution to EU programmes and agencies in this timeframe) on this purpose, and received CHF 2.5 billion, being a net beneficiary in the field with a positive return of CHF 219 million.[53] Switzerland has also initially predicted a sum of CHF 4 billion to take part in Horizon 2020 in the years 2014-2020. However, following a Swiss referendum accepting a project aiming to limit immigration, and thus standing against the EU internal market principle of free movement of people, the EU has decided to only partially associate Switzerland with the programme until 2016 (the country became fully associated again on 1 January 2017). As a result, the number of projects with Swiss participation and under Swiss coordination have been in decline when compared to the previous framework.[54]

Like in Switzerland, cooperation with the EU and funding in the research area could remain highly beneficial for the UK. Yet the strong emphasis on immigration of the EU referendum campaign indicates that similar problem could arise in such a scenario, if the UK strove to participate in EU programmes without accepting the freedom of movement of persons, as implied by Theresa May in her January speech. Confronted with the hard EU stance on the issue, the Swiss government has long struggled with the question of referendum results implementation, and rejected a popular initiative for a second referendum, but finally ratified the Protocol on the extension to Croatia of the Free Movement of Persons Agreement on 16 December 2016. This let the country remain in the Horizon 2020 programme. It is currently working on a counter-proposal for the "Sortons de l'impasse!" initiative.[55] Please see Annex IV for more details on the current Swiss participation in EU programmes.

When it comes to autonomous contributions, similarly to EEA EFTA grants, Swiss government payments for the reduction of economic and social disparities in the EU are handled outside the EU budget, directly with relevant member states. They are based on bilateral agreements concluded between Switzerland

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[52] Each Swiss autonomous enlargement contribution has a time frame of ten years. Contributions agreed in 2007 and 2009 are divided into 5-year commitment and 5-year implementation period, whereas for the payment agreed in 2009 these periods last around 2.5 and 7.5 years respectively. See: Swiss Government, "Evaluation Report on the Swiss Contribution 2015: Key points in brief", Swiss Agency for Development and Cooperation, State Secretariat for Economic Affairs, March 2016, https://www.eda.admin.ch/content/dam/erweiterungsbeitrag/en/documents/Publikationen/kurzfassung-evaluationsbericht-erweiterungsbeitrag-2015_EN.pdf

[53] Swiss Government, "Facts and figures on Swiss participation in European framework programmes for research", *op. cit.*

[54] Compare reference no 28.

[55] See e.g. Swiss Government, Press release: "La Suisse ratifie le protocole relatif à la Croatie ", 16.12.2016, https://www.admin.ch/gov/fr/accueil/documentation/communiques.msg-id-64991.html; Swiss Government, Press release: " Le Conseil fédéral fixe les grandes lignes du contre-projet à l'initiative "Sortons de l'impasse !"", 21.12.2016, https://www.admin.ch/gov/fr/accueil/documentation/communiques.msg-id-65073.html

and the countries in the framework. However, eligibility criteria are different, as Swiss contributions only flow to countries that have joined the EU from 2004 onwards. Funding periods and amounts also differ, just like priority categories.[56]

Founding considerations and calculations on the figures provided in the Swiss Government's evaluation of Switzerland's European policy completed in 2010, seems to guarantee the highest level of reliability of eventual findings among the available data sources.[57] The report presents the main categories of Swiss contributions between 2010 and 2013, offering approved or estimated figures for each year.[58] Table 2 presents Swiss payments related to cooperation with the EU.

Table 2. Switzerland's annual contributions to the EU and EFTA (EUR million) in absolute terms in 2012 and 2013

	total 2010-2013	average 2010-2013
Direct contributions to EU budget:	**1462.1**	**365.5**
Research	*1253.9*	*313.5*
Eurostat	*23.9*	*6.0*
European Environment Agency	*6.4*	*1.6*
Alpine Traffic Observatory	*0.3*	*0.1*
MEDIA	*29.7*	*7.4*
European Aviation Safety Agency	*6.4*	*1.6*
Schengen	*79.7*	*19.9*
Lifelong Learning and Youth in Action	*62.0*	*15.5*
Autonomous contributions to enlarged EU:	**524.4**	**131.1**
EU-10	*470.0*	*117.5*
Bulgaria and Romania	*54.5*	*13.6*
Payments to EFTA budget	**28.5**	**7.1**
Total Switzerland's contribution	**2015.0**	**503.8**

Source: Calculations based on data from Swiss Government, "Rapport du conseil fédéral sur l'évaluation de la politique Européenne de la Suisse", 17.09.2010, https://www.admin.ch/opc/fr/federal-gazette/2010/6615.pdf; EFTA, Annual Reports 2010-2013, http://www.efta.int/publications/annual-report.
Note: Due to rounding, totals may not exactly correspond to the sum of individual items.

Basing on this data, the amounts of potential UK payments relative to cooperation with the EU under the Switzerland model are estimated, considering the same scenarios as in the case of Norway. For detailed figures and more information on methodology please see Annex IV.

[56] Compare e.g. EEA Grants – Norway Grants, "EEA and Norway Grants 2014-2021", *op. cit.*; Swiss Government, "Switzerland's contribution to EU enlargement", 30.12.2015, https://www.eda.admin.ch/countries/bulgaria/en/home/enlargement-contribution/switzerland-s-contribution-to-eu-enlargement.html

[57] Swiss Government, "Rapport du conseil fédéral sur l'évaluation de la politique Européenne de la Suisse", 17.09.2010, https://www.admin.ch/opc/fr/federal-gazette/2010/6615.pdf

[58] Figures for the first three years of MFF 2007-2013, which were likely smaller than in the consecutive years, are not available. As contributions for Bulgaria and Romania were also agreed on only at the end of 2009, it can be assumed that the yearly average of Switzerland's contribution during the whole MFF was lower than the average only for years 2010-2013. However, similar finding can be made with regard to the UK payments to the EU budget, which increases the estimated accuracy of previsions.

It is estimated that in gross terms, the UK would spend over 7 or over 6 times less than it does now, depending on the scenario. The country's net expenditure would amount to 10.9% or 17.2% of the size of current net contributions. This presents a gross-net payments relation in the first scenario that is different from the Norwegian case – suggesting that under the Swiss model the UK's net payments relative to gross contribution could be lower than they are now. This can be explained by the fact that Swiss contributions accompanied by potential receipts (i.e. those going directly to the EU budget) constitute around 72.6% of the country's spending for cooperation with the EU, whereas in the case of Norway, this number stood at about 44.3% in the 2007-2013 period.

As regards the EU budget, the UK's gross contributions would be reduced more than ten-fold, and the net amount by 95.3%, reaching around EUR 412.3 million in 2010-2013. However, as in the Norwegian model, the EU budget could be potentially strengthened by indirect payments from the UK in the form of customs duties applied to products not under the bilateral agreements.

The UK would also most likely pay direct contributions to the member states of the enlarged EU. Compared to current UK expenditure for the Cohesion Fund their size could shrink by half or stay at the same level, depending on scenario.

Despite the fact that under the Swiss model the UK would stay out of the EEA, it would still need to contribute to the EFTA budget (but not the budgets of EFTA institutions). This could cost between EUR 28.2 and 56.8 million per year, i.e. 0.3-0.6% of the UK's real average net contributions to the EU budget in 2010-2013.

3. From zero to hero?

All the other main options under which countries maintain economic cooperation with the EU do not entail any financial contributions to the EU budget in their basic form. Considering the current tough rhetoric of the British prime minister, this can be currently seen as the reality the UK is aiming for with regard to financial terms, although the UK's Brexit secretary David Davis has previously admitted that the government would consider making contributions to the EU budget after Brexit "for access for goods and services to the European market".[59]

Since 1995, **Turkey** has been a member of the EU customs union,[60] which theoretically could be an alternative to the UK's EU membership, although Theresa May claimed that a Common Commercial Policy and Common External Tariff were not an option for the UK. For Turkey, customs union grants limited access to the internal market, but does not cover agriculture (except processed agricultural products), public procurement or services – an area especially important from the UK's perspective. Free movement of capital and people is also excluded. This might therefore necessitate looking for complementary deals. Regarding agricultural products, Turkey has established bilateral trade concessions with the EU. While the country does not have to contribute to the common budget, it does have an option to participate in chosen EU programmes and agencies, such as Horizon 2020 or COSME,[61] paying a yearly contribution to the EU budget

[59] Brown, J. M., Pickard, J., "UK could make EU budget contributions after Brexit – David Davis", Financial Times, 01.12.2016, https://www.ft.com/content/b4c1c7d1-87d1-3764-9113-f8c98c44d4b9
[60] European Commission, "Trade with Turkey", 29.04.2016, http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/
[61] European Commission, Press release: "Turkey joins Horizon 2020 research and innovation programme", 04.06.2014, http://europa.eu/rapid/press-release_IP-14-631_en.htm;European Commission, Press release: "Turkey joins COSME, the EU's programme for SME financing", 16.10.2014, http://europa.eu/rapid/press-release_IP-14-1168_en.htm

and obtaining funding from these sources.[62] Turkey's opportunity to benefit from these arrangements rests upon its status of candidate country,[63] but it seems that the UK would also like to pursue an agreement that would grant it possibility to participate in programmes on an *ad hoc* basis after its withdrawal from the EU. While such arrangement could be legally possible, its establishment would be again much less certain in political terms. Some argue that a deal modelled on the EU-**Ukraine** Association Agreement and Deep and Comprehensive Free Trade Area could be a viable alternative.[64] However, as the association's objectives include among others "increasing Ukraine's association with EU policies", "gradual integration in the EU Internal Market" and "progressive approximation of its legislation to that of the Union",[65] it is disputable whether a similar deal could be achieved with a country wanting to exit the EU.

In theory, the UK could also follow the **Canadian path** and try to negotiate a comprehensive free trade deal with the EU, such as the Comprehensive Economic and Trade Agreement (CETA), which does not require any budgetary contributions. In July 2016, the European Commission formally proposed to the Council of the EU the signature and conclusion of CETA,[66] following negotiations launched in 2009 and concluded in 2014.[67] Under the agreement, 99% of tariffs between the EU and Canada are to be removed. However, e.g. financial passporting rights are not granted. The deal was signed on 30 October 2016, after last-minute negotiations with the Wallonian government, whose opposition threatened to block the accord. It may enter into force on a provisional basis as soon as in April 2017, following the European Parliament's approval at the February 2017 plenary.[68] However, as CETA is a mixed agreement, national parliaments will still need to conclude separate ratification procedures before the deal's final conclusion.[69]

The UK government's ambitions to achieve a *sui generis* agreement are therefore currently confronted with the Canadian case, which highlights the onerousness of the negotiation process as well as the actual power that national parliaments can have with regard to the EU's international trade agreements.[70] This means that a similar, tailored free trade deal with the EU (excluding e.g. any contributions to the EU budget, EU jurisdiction and the principle of free movement of people) could prove even more difficult to strike for the UK than for Canada, and even more so for economic and practical reasons. Firstly, because the UK depends on trade with the EU much more than Canada, and secondly, because having relied upon

[62] Turkey – European Union Association, "EU programmes and agencies to which Turkey participates", http://turabder.org/en/turkey-eu/turkey-eu-relations/eu-programmes-and-agencies

[63] As a membership candidate country, Turkey also receives funding from the EU budget under the Instrument for Pre-accession Assistance (IPA), which is set to reach EUR 630.7 million in 2016 and EUR 4.5 billion in the period 2014-2020 (not accounting for the allocation for Cross-border Cooperation). See: European Commission, "Overview – Instrument for Pre-accession Assistance: Key figures", 24.02.2016, http://ec.europa.eu/enlargement/instruments/overview/index_en.htm; European Commission, "Turkey – financial assistance under IPA II: Key figures", 22.01.2016, http://ec.europa.eu/enlargement/instruments/funding-by-country/turkey/index_en.htm

[64] Duff, A., "After Brexit: learning to be good neighbours"", EPC Commentary, 18.11.2016, http://www.epc.eu/documents/uploads/pub_7194_afterbrexit.pdf

[65] EU-Ukraine Association Agreement, 21.03.2014, https://eeas.europa.eu/sites/eeas/files/association_agreement_ukraine_2014_en.pdf

[66] European Commission, Press release: "European Commission proposes signature and conclusion of EU-Canada trade deal", 05.07.2016, http://europa.eu/rapid/press-release_IP-16-2371_en.htm

[67] European Commission, "EU and Canada start negotiations for economic and trade agreement", 10.06.2009, http://trade.ec.europa.eu/doclib/docs/2009/june/tradoc_143427.pdf

[68] European Parliament, Press release: "CETA: MEPs back EU-Canada trade agreement", 15.02.2017, http://www.europarl.europa.eu/news/en/news-room/20170209IPR61728/ceta-meps-back-eu-canada-trade-agreement

[69] See e.g. European Commission, Press release: "EU-Canada summit: newly signed trade agreement sets high standards for global trade", 30.10.2016, http://europa.eu/rapid/press-release_IP-16-3581_en.htm; Puccio, L., European Parliament Briefing: "A guide to EU procedures for the conclusion of international trade agreements", 25.10.2016, http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/593489/EPRS_BRI(2016)593489_EN.pdf

[70] See e.g. Emmanouilidis, J. A., "The bumpy road from Bratislava to Rome: the results of a (un)spectacular summit", EPC Post-Summit Analysis, 24.10.2016, http://www.epc.eu/documents/uploads/pub_7075_postsummitanalysis24.10.16.pdf;

DG Trade over the last 30 years to strike deals, the UK government and its new department for International Trade will need time to build domestic expertise in this field.[71] Against this background, if the UK still proceeds in this direction, reaching an agreement is expected to be an extremely long and painful process with an unsure outcome. Uncertainty over the future of the EU-UK relationship has been criticised by some member states and recognised by the Commission.[72] Considering that its level could further increase with negotiations very likely going for longer than the two years foreseen in Article 50 TEU, this option may not satisfy the UK's, but also the EU's, interests.

The absence of any deal at the time of leaving the EU could mean that the UK government would not have to make any continuing direct contributions to the EU budget either. However, in a scenario where the UK's economic relationship with the EU would be based on the **WTO membership**, tariffs and barriers to services would stay in place, and access to the EU market would be much lower than in case of the internal market. This means that despite the lack of any direct public payments to the EU budget from the UK side, EU revenue could increase through customs duties imposed on goods imported from the UK, collected on the EU's behalf by the EU27 as part of Traditional Own Resources, like e.g. in case of the Norwegian model related to agricultural products. Considering purely the EU budget revenues from the UK, this ironically means that they could potentially be higher in this case than the direct EU budget contributions if the UK negotiated a deal with single market membership, both in gross and net terms. The yearly average value of UK exports to the rest of the EU in 2014-2015 equalled EUR 183.2 billion. If this value was maintained in the years after the UK's withdrawal, and the EU applied an average tariff of 2.3% to non-agricultural products and 8.5% to agricultural products (EU's trade weighted average Most Favoured Nation tariffs in 2014), the EU budget would receive around EUR 4.2 billion per year (after deduction of 20% TOR collection costs by the member states).[73] **This is more than the estimated revenue for the EU budget from the UK side in direct and indirect terms under the Norwegian model.**

At the same time, the European Commission insists that the UK will have to cover all costs deriving from its current membership even after the country's exit from the Union, regardless of what the future EU-UK deal will look like. This **'exit bill'** could amount to up to EUR 60 billion due to outstanding pension liabilities, loan guarantees and spending on legally binding budget commitments,[74] and theoretically could be paid to the EU over a period of several years. This could theoretically cover to a larger or smaller extent the financial gap left behind by Brexit in the EU budget for some years, which would be in the interest of the EU27. However, the UK has already dismissed the EUR 60 billion figure[75] that is said to be considered by the European Commission.[76] More recently, the UK's Lords EU Financial Affairs Committee even concluded that

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[71] European Commission, "Trade with Canada", 01.08.2016, http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/; Eurostat, Database: "Intra and Extra-EU trade by Member State and by product group (ext_lt_intratrd)", 01.04.2016, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en; Busch, B., Matthes, J., IW Report: "Brexit – The Economic Impact: A Meta-Analysis", *op. cit.*

[72] See e.g. European Commission, "Commission Work Programme 2017: Delivering a Europe that protects, empowers and defends", 25.10.2016, http://ec.europa.eu/atwork/pdf/cwp_2017_en.pdf

[73] Calculations based on Eurostat, Database: "Intra and Extra-EU trade by Member State and by product group (ext_lt_intratrd)", 01.04.2016, http://ec.europa.eu/eurostat/web/products-datasets/-/ext_lt_intratrd; Eurostat, Database: "EU trade since 1988 by HS2-HS4 (DS-016894)", *op. cit.*; WTO, ITC, UNCTAD, "World Tariff Profiles 2016", *op. cit.*

[74] Barker, A., "The €60 billion Brexit bill: How to disentangle Britain from the EU budget", Centre for European Reform, 06.02.2017, https://www.cer.org.uk/publications/archive/policy-brief/2017/%E2%82%AC60-billion-brexit-bill-how-disentangle-britain-eu-budget

[75] Hughes, L., "Liam Fox dismisses 'absurd' claim that UK will face £50 billion Brussels bill after Brexit", 01.02.2017, http://www.telegraph.co.uk/news/2017/02/01/britain-charged-50-billion-brexit-divorce-bill-sir-ivan-rogers/

[76] The exact size of the 'exit bill' that could be officially announced by the European Commission is subject to discussions. There are among others suggestions that EU assets could offset the liabilities that the UK could face. See e.g. Darvas, Z., Efstathiou, K., Goncalves Raposo, I., "The

the country might not necessarily be obliged to pay any exit bill at all.[77] The issue of the divorce bill is not yet settled but contradicting interests of both sides could potentially lead to trouble, if forced too strongly. If negotiations on the bill are mismanaged, they could worsen the climate for the overall Brexit negotiations, which could even end prematurely, and for shaping the future EU-UK relationship.[78]

UK's Brexit bill: could EU assets partially offset liabilities?", 14.02.2017, http://bruegel.org/2017/02/the-uks-brexit-bill-could-eu-assets-partially-offset-liabilities/

77 BBC, "Brexit: UK 'not obliged' to pay divorce bill say peers", 04.03.2017, http://www.bbc.com/news/uk-politics-39154218

78 See e.g. Barker, A., "The €60 billion Brexit bill: How to disentangle Britain from the EU budget", *op. cit.*; The Economist, "The multi-billion-euro exit charge that could sink Brexit talks", 11.02.2017, http://www.economist.com/news/britain/21716629-bitter-argument-over-money-looms-multi-billion-euro-exit-charge-could-sink-brexit

Time for tough choices

As illustrated, the UK's withdrawal from the Community will present a major challenge for the EU, **in economic, financial and political terms**. The size of its impact will depend on the character of the trade arrangements made between the two sides and the UK's possible participation in the EU budget and revenue from customs duties. The next MFF post-2020 could already take Brexit on board and incorporate more structural changes, considering among other things the final report and recommendations on the future financing of the EU proposed recently by the High Level Group on Own Resources (HLGOR) chaired by Mario Monti.[79] However, if the UK triggers Article 50 before 2018, which is almost certain, no transition agreement or "phased process of implementation" sustaining UK payments to the EU budget would be in place, and a UK exit bill would not cover the financial gap at the time, so spending cuts and/or additional payments from the member states will be inevitable already before the end of 2020. Annual budgets and the MFF 2014-2020 would thus have to be amended and adjusted.

Factors other than Brexit will also likely add to the budget negotiations' complexity: member states defending their national interests and prerogatives more strongly than before due to domestic political pressures; tough stances of national net contributors to the EU budget, especially Germany, given the perceived lack of solidarity of some countries regarding the migration crisis; the rise of new priorities faced by the EU in the poly-crisis context[80] and political struggles over their funding. A number of extremely politically sensitive subjects will thus land on the EU table, with a high potential to reignite national differences and member state divisions across Europe. The situation could be the worst if the EU-UK negotiations failed completely and the UK left the EU before 2019 without further payments or exit bill arrangements that would allow to cover the financial gap at least until the start of the next MFF post-2020. In the budget context, this would not only be a huge financial challenge, but it would also limit the time for the EU27 to come up with a comprehensive, common response.

Assuming that the UK contribution and EU27 payments hitherto compensating for the UK rebate were to be excluded from the EU budget with no alternative inflows following, total spending would need to be cut by EUR 20-27 billion, i.e. 14-19%. Even if the EU27 contributions relating to the former EU rebate were maintained and if the cuts were made in different areas equalling to the amounts received by the UK, EUR 7-14 billion, i.e. 5-10% of EU spending (the UK's net contributions to the EU budget in 2014 and 2015) would still need to be scrapped or compensated to balance EU accounts.[81] Depending on the shape of the future EU-UK deal or its lack, we estimate that the gap could stay at this level or be reduced to EUR 2.9-9.8 billion, i.e. 2.0-6.7% of EU spending.[82]

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[79] High Level Group on Own Resources, "Future financing of the EU – Final report and recommendations", December 2016, http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report_20170104.pdf

[80] Emmanouilidis, J. A., Zuleeg, F., "EU@60 - Countering a regressive and illiberal Europe", EPC Input Paper, 13.10.2016, http://www.epc.eu/pub_details.php?cat_id=1&pub_id=7020

[81] Assuming that Traditional Own Resources collected by the UK "on behalf" of the EU would be gathered in the same amount after country's withdrawal by the rest of the MS, resulting in further narrowing the financing gap, would be risky. Many goods to which EU customs duties are applied are destined for the UK market and thus might not enter the EU after Brexit, which is why we don't take the TOR impact into consideration.

[82] Other researchers follow different logic in estimating the financial gap left behind by Brexit, as outlined in the introduction to this paper.

In some areas of the current MFF the potential of new **spending cuts** seems limited and unlikely. From the six categories of expenditure, the 'Compensations' field included temporary funds for Croatia in the first year after its accession to the EU in July 2013 and 'Administration' costs have been frozen since 2012, with staff being subject to a zero growth policy and several other money saving reforms introduced in recent years.[83] Other MFF categories can be considered as protected from possible funding decreases. Expenditure on 'Global Europe' (covering the EU foreign policy, including e.g. development assistance and humanitarian aid) as well as 'Security and Citizenship' (containing *inter alia* border protection, immigration and asylum policy as well as information and dialogue with citizens) can be predicted to remain stable or rise, as a result of the tensions generated by the migration and refugee crisis and in European societies and citizens' willingness for more Europe on these issues.[84] As noted in the EU 2015 financial report, in comparison to previous years, funding in support of security, migration, border control, addressing the root causes of migration, and integration of refugees was doubled to over EUR 10 billion for 2015-2016.[85]

In this context, spending cuts will likely impact the three remaining fields, although arguments could be found as to why it would be important to keep up the same level of expenditure or even increase the budget of each: 'Competitiveness for growth and jobs'; 'Economic, social and territorial cohesion' (both being subsections of the 'Smart and Inclusive Growth' category); or 'Sustainable Growth: Natural Resources' (including among others CAP and CFP).

The key challenge here is that each of these areas is traditionally more significant for a different group of countries within the EU. Competitiveness generally matters the most for western European countries, and cohesion for south and eastern Europe, while agriculture and fisheries are considered essential for the eastern Europe economies, but also e.g. France. Reducing expenditure in any of these fields is likely to trigger opposition from countries that benefit relatively the most from EU spending in the given category. Even if cuts were made at a fixed percentage, there would still be an area where the EU budget would be hit harder – cohesion, to which the UK has been a larger net contributor than to any other of the MFF headings. Replacing grants with financial instruments in some areas of cohesion policy could help reduce the negative impact while making the policy more effective, but discussion on such measures is still ongoing.

The alternative, presenting a political challenge of a similar, if not greater, magnitude, could be that the UK contributions are compensated by **additional payments** from the rest of the member states. While maintaining their size at the level of the UK rebate contributions to date could theoretically be politically acceptable, any larger amount can be sure to prove controversial. This approach also allows for a wide array of different potential scenarios to be envisaged.[86] The UK contribution could be e.g. reallocated among all other member states according to their share in overall EU27 GNI, similarly to how the GNI own resource levies are calculated, which has also been proposed by other researchers and would not require changing

[83] European Commission, "The budget explained: Myths and facts", http://ec.europa.eu/budget/explained/myths/myths_en.cfm

[84] See e.g. Special Eurobarometer 421, "The European Year for Development – Citizens' views on development, cooperation and aid", Chapter 3 and 4, January 2015, http://ec.europa.eu/public_opinion/archives/ebs/ebs_421_en.pdf; Eurobarometer Interactive, Questions on common asylum policy, common immigration policy, rapid military action force, http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Chart/index

[85] European Commission, Financial Report 2015, *op. cit.*

[86] Böttcher, B., Rosenberger, L., Chart in focus "EU budget: Who's to pay for Brexit?", Deutsche Bank Research, 26.08.2016, https://www.dbresearch.com/servlet/reweb2.ReWEB?rwsite=DBR_INTERNET_EN-PROD&rwobj=ReDisplay.Start.class&document=PROD0000000000419698

the Own Resources Decision.[87] However, in this way, net contributors to the EU budget could be hit the hardest, and many powerful member states are reluctant to increase their national contributions, first and foremost Germany. Other options could include a reallocation of the UK's payments only among the net recipients or net contributors to the EU budget in a given period, a mixed variant of such an approach (reallocating fixed shares of the UK's contributions between the two groups mentioned), or an increase in payments proportional to countries' gross or national contributions. Extra rebates for different member states could theoretically be considered, although they would make the system even more complex.

Any exact figures presenting how much different member states would need to contribute under each of the potential models should be estimated in order to propose different alternatives that could be carefully examined and discussed among the EU27. However, regardless of the model chosen, some countries could be once again more affected than others, provoking political tensions in the EU, which already struggles with decreasing internal solidarity. Such a solution would therefore seem feasible only if specific new arrangements for allocation of additional payments were made, or a reform of the revenue side of the EU budget introduced, basing own resources e.g. on taxes rather than predominantly on country payments relative to their GNI.[88] The latter option was supported by the HLGOR. In its final report the group proposed *inter alia* taxes related to financial activities as well as energy/environment/climate/transport.[89] However, a possibility of "tax-based own resources" was earlier opposed e.g. by the German deputy Finance Minister Jens Spahn in the context of the nearest years.[90] The HLGOR also touched on a potential reform of the expenditure side of the EU budget, emphasising the importance of European added value, which, together with a modernised revenue system, could help member states look away from the *juste retour* principle.

As long as the UK does not formally leave the European Union two years after triggering Article 50 (or earlier if negotiations collapse, or later if all the member states agree), or another transition agreement is in place, the country remains an EU member with all its rights and obligations, including financial ones. This principle has been used as a rule for the European Commission e.g. when drafting the EU budget for 2017.[91] However, as mentioned, the UK could be out of the Union in 2019 or earlier. In this context, even though the proposal for a mid-term review of the current MFF 2014-2020 published on 14 September 2016 does not touch on Brexit,[92] the Commission is due to present its proposal for the next MFF by the end of 2017. This will most definitely intensify discussions on the Brexit factor in the EU budget reforms among the member states and impose upon the EU27 their first major test in this area in the coming years.

In fact, Brexit should create an additional momentum for reforming the own resources system, which has been long and widely criticised, independently of the UK's vote, for excessive reliance on GNI own resource as a revenue source. Other points of criticism include the lack of transparency, complexity and multiple special rules (correction mechanisms), which continue to exist in a reviewed form under the new Own Resources Decision from 2014 that came into force on 1 October 2016 (with a retroactive date of

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87 Council of the European Union, "Council decision on the system of own resources of the European Union", 2014/335/EU, Euratom, 26.05.2014, http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1485417562775&uri=CELEX:32014D0335

88 See e.g. Barbière, C., "Pan-European tax on the table after Brexit", 12.09.2016, http://www.euractiv.com/section/euro-finance/news/pan-european-tax-on-the-table-after-brexit/

89 High Level Group on Own Resources, "Future financing of the EU – Final report and recommendations", *op. cit.*

90 Jens Spahn's statement at the Bruegel event "The future of the EU budget", 15.11.2016

91 European Commission, "Draft budget 2017 – general introduction", 18.07.2016, http://eur-lex.europa.eu/budget/data/DB/2017/en/SEC00.pdf

92 European Commission, "Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results", 14.09.2016, http://ec.europa.eu/budget/mff/figures/index_en.cfm#com_2016_603

effect of 1 January 2014).[93] The need for a budget reform has already been underlined when the current MFF was adopted, and before.[94] In the long run, other reforms such as the creation of a eurozone budget, which has been in discussion for years,[95] could gain more momentum in the context of Brexit too. Taking a step forward, the European Parliament approved a resolution calling for budgetary capacity for the euro area on 16 February 2017.[96] European Commission's White Paper on the future of Europe from 1 March 2017 outlines in turn a possibility of additional budgets being made available by some member states for chosen areas like taxation or social issues.[97]

In January 2017, the HLGOR presented its recommendations on "more transparent, simple, fair and democratically accountable ways to finance the EU" to the European Commission and Parliament. With the new MFF planned to be guided by the Budget Focused on Results (BFOR) initiative, the Commission also advocates "a coherent reform" of the EU budget's expenditure side, which would put the focus on an allocation of resources that targets priorities and supports Europe's political objectives while bringing high performance and added value.[98] The rise of overarching challenges like migration, security and climate change, as well as improving the social and economic *status quo* – all of which have been building pressure on the EU budget and the overall EU funding strategy post-2020 – are also expected to be addressed. The EU budget could serve as a tool for tackling the crisis of trust in the EU among its citizens,[99] to fight rising Euroscepticism and reduce the possibility of other countries withdrawing from the European project, the future of which has recently been thoroughly discussed by Emmanouilidis and Zuleeg.[100] In this context, it is worth mentioning again the Commission's White Paper on the future of Europe, prepared as contribution to the Rome Summit on 25 March 2017, marking the 60th anniversary of the EU. When presenting five scenarios according to which the Union could evolve by 2025, the document assumes a modernisation, development or refocusing of EU budget in each of them.[101] Regardless of the direction in which the EU will go, changes to budget would be necessary.

93 European Commission, "The EU's own resources", http://ec.europa.eu/budget/mff/resources/index_en.cfm
94 See e.g. Zuleeg., F., "In danger of breakdown: is the EU approaching budget stalemate?", EPC Issue Paper, 24.01.2011, http://www.epc.eu/pub_details.php?pub_id=1215&cat_id=2; Zuleeg, F., "The EU Multiannual Financial Framework (MFF): agreement but at a price", EPC Commentary, 11.02.2013, http://www.epc.eu/pub_details.php?cat_id=4&pub_id=3306; Zuleeg, F., "No complete breakdown – at least not just yet", EPC Commentary, 23.11.2012, http://www.epc.eu/pub_details.php?cat_id=4&pub_id=3129&year=2012
95 The concept of a budget for the eurozone has been in the debate for many years. See e.g. Emmanouilidis, J. A., Zuleeg, F., "A budget for the euro zone?", EPC Commentary, 15.10.2012, http://www.epc.eu/pub_details.php?cat_id=4&pub_id=2998
96 European Parliament, "Resolution of 16 February 2017 on budgetary capacity for the euro area", 2015/2344(INI), 16.02.2017, http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2017-0050+0+DOC+XML+V0//EN&language=EN
97 European Commission, "White Paper on the future of Europe: Reflections and scenarios for the EU27 by 2025", COM(2017)2025, 01.03.2017, https://europa.eu/european-union/sites/europaeu/files/whitepaper-future-of-europe_en.pdf
98 European Commission, "Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results", 14.09.2016, http://ec.europa.eu/budget/mff/figures/index_en.cfm#com_2016_603
99 See also e.g. Núñez Ferrer, J., "The Multiannual Financial Framework post-2020: Balancing political ambition and realism", CEPS Policy Paper No. 2016/2, 18.11.2016, https://www.ceps.eu/publications/multiannual-financial-framework-post-2020-balancing-political-ambition-and-realism
100 Emmanouilidis, J. A., Zuleeg, F., "EU@60 - Countering a regressive and illiberal Europe", *op. cit.*
101 European Commission, "White Paper on the future of Europe: Reflections and scenarios for the EU27 by 2025", *op. cit.*

Conclusions

The United Kingdom's divorce from the European Union promises to be a hard battle. Tough political stances on both sides of the Channel give a negative outlook for the negotiations process that is expected to start by the end of March 2017, now pending the final backing of the British parliament, following the vote to amend the government's Brexit bill in the House of Lords.[102] The nature of the future EU-UK relationship is still an open question, despite the objectives presented by Theresa May in her speech on 17 January 2017 and in the White Paper from February 2017,[103] as it can be expected that the EU will find them unpalatable in their current form. This carries vital consequences not only for trade between the two sides, but also for their budgets, both prior to the UK's withdrawal and after. If they do not collapse at some point, Brexit negotiations in the upcoming years will be held in parallel to discussions on the review of the current MFF next year and on the following MFF, increasing uncertainty as regards the EU's financial position and the shape of the future EU budgets.

Our estimates show that there is a connection between single market access and direct financial contributions to the EU. In general, access to the single market requires payments to the EU when it comes to countries whose situation is most comparable to the one of the UK – Norway and Switzerland. However, it is still a low price to pay given the advantages offered in return, such as e.g. financial passporting rights in case of the EEA (Norwegian model) arrangement, as well as considering the low likelihood of striking a different free trade deal with similar benefits and the alternative of trading on the basis of WTO rules. Under the Norwegian or Swiss model the UK would most likely need to pay autonomous contributions to selected member states for disparities reduction, but the only funds going directly to the EU budget would be those meant for the programmes for which the states have signed agreements with the EU and in which the UK would choose to participate, which could be seen as in line with the UK's negotiating objectives.

The UK could thus try to maintain its strong position in research, which is the greatest part of Norwegian and Swiss contributions to the EU budget. Apart from receiving funding in this field, the UK would also benefit from sometimes unquantifiable spillover effects, such as recognition of academic institutions and research excellence that could be hindered by lowered international cooperation. In this context, any potential gross payments to the EU budget should be easier to justify for the UK government to their voters. It could be argued that an exact copy of a Norwegian or Swiss-style deal does not seem to be in cards any longer, considering that the British prime minister recently ruled out accepting the freedom of movement principle and external jurisdiction. Nevertheless, given that the possibility of the UK 'cherry-picking' on the single market is strongly opposed by the EU leaders and will be resisted by EU27, continuing to trade goods and services with the EU on current terms without accepting the above requirements may not be possible. While there are a number of options on the menu that the UK might try to follow, the single market is not *à la carte*.

In this light, following the path of Canada by striving for a tailored, comprehensive free trade agreement could seem one of the most attractive options for the UK as it does not involve any budget payments or free

[102] Rayner, G., Hope, C., McCann, K., "Theresa May plans to trigger Brexit in two weeks despite defeat by 'posturing' Lords over rights of EU citizens", *op. cit.*

[103] May, T., "The government's negotiating objectives for exiting the EU: PM speech", *op. cit.*; May, T., "The United Kingdom's exit from and new partnership with the European Union", *op. cit.*

movement of persons. In fact, the British government stresses the need for a brand new free trade deal, rejecting suggestions that it might follow any template scenario. However, considering the Canadian case and taking the UK's current position in Europe into perspective, such a negotiation process could be a very bumpy and long road that might end over a cliff. The UK could also try to negotiate participation in a customs union (or its limited version) and/or some EU programmes on an *ad hoc* basis like Turkey, or an arrangement similar to the EU-Ukraine Association Agreement. But while these could be legally possible, their conclusion would be much less certain politically, most likely provoking further controversies both at the EU level and among EU27 national parliaments related to viewing the UK's attempts as 'cherry-picking'.

According to our estimates, considering current data and the models already in place, depending on the approach adopted by the UK, the UK's gross and net direct contributions to the EU budget post-Brexit could amount to less than 1/6 of their current size. However, the customs duties that would apply to the UK exports to the EU – for some products in the Norwegian and Swiss scenarios, and all goods if no deal is struck – could result in the *de facto* flows from the UK to the EU budget being higher than these estimates, despite not being direct public financial contribution to the EU budget. In fact, the total payments under these scenarios (around €3.9 billion gross under the Norwegian model) could prove lower than the gross flows from the UK to the EU budget in case of relying solely on the WTO framework. The latter could be roughly 77% lower and net flows 60% lower than the actual UK contributions in the 2014-2015 period, amounting to around EUR 4.2 billion. Due to the uncertainty regarding future trade trends, such estimates should be approached cautiously. However, on their basis it could be argued that if the negotiations don't collapse earlier, once the time for concluding the agreement comes and choice has to be made between different options, **the hardest Brexit might be in the short term interest of the EU27**. In static terms, the EU budget could be affected most in the case of a free trade agreement eliminating all direct contributions as well as the great majority of tariffs (such as 99% planned in the case of CETA).

In dynamic terms, the negative effects of such hardest Brexit in a longer run, stemming e.g. from the UK's lack of single market access, could easily outweigh the 'benefits' from tariffs. In fact, a premature, complete breakdown of negotiations, wherein the UK suddenly stops making any payments and exit bill arrangements don't cover the financial gap, could be the worst scenario for the EU budget overall. The gap would need to be dealt with instantly and the EU27 would have limited time to act in unison. Political struggle could be fiercer than ever, and a harmonious EU-UK relationship would be very difficult to develop after such a first step.

In any case, the EU would initially be faced with a budget gap of 14-19%, i.e. EUR 20.1-27.5 billion (including the drop of around 5% of EU revenue due to scrapped EU27 payments for UK rebate), which it would need to tackle still during the current financial framework or in the next MFF post-2020, without taking into account the exit bill for the UK whose matter is not yet settled. An EU-UK transition agreement or "phased process of implementation" could make this process more fluent, although due to opposition to any continuing budget contributions from the UK side (with a possible exception for payments for "some specific European programmes") and reluctance to respect some single market rules, such a scenario remains uncertain. After considering the impact of the post-Brexit deal or a lack of one on the EU budget, the remaining financial gap could either be tackled by making budget cuts (where the cohesion area could be expected to be affected more than other fields) and/or by compensating it with additional payments from the rest of the member states. Both approaches would be very difficult to implement and would have to be applied according to a carefully designed key to limit political tensions and prevent further loss of solidarity among countries. The latter solution could prove particularly challenging, with many powerful member states, led by Germany, being reluctant to pay anything more to the EU budget. Specific new arrangements for the allocation of additional payments or/and an alternative for the EU's current own resources system based on national contributions (e.g. assuming a bigger role for taxes which, however, remains controversial), could potentially change this situation.

We recommend that the EU approaches the prospect of a financial gap through four main mechanisms.

- First, **the shape of any future EU-UK deal (or a lack of one) would need to be taken into account**. In this way, **the financial gaps in the programmes to which the UK would participate could be reduced by the level of the country's projected gross contributions there**, and e.g. a decrease in funding for the Cohesion Fund could be made proportional to the UK's direct contributions to selected member states for disparities reduction, if the country obliged to that under a new agreement. Estimated additional income from customs duties would also need to be considered. All this **could narrow the gap by up to around 3% of EU revenue (EUR 4.2 billion)**; however, its effect could also be close to zero. The potential temporary financial impact of a negotiated 'exit bill' should also be taken into account. However, as the final shape of any EU-UK arrangement and exit bill is very uncertain, this might require more flexibility in the new MFF negotiating process.
- Second, **the EU27 payments to the EU budget that were once made to compensate for the UK rebate should be maintained**, decreasing the gap by a further 4% (EUR 6.1 billion).
- Thirdly, **budget cuts could be made in all areas equivalent to the UK's receipts projected there if it were still a member of the EU**. Although such a solution might not be optimal in economic terms (as e.g. potential funding in some areas like research would be decreased more than in others), it should be politically digestible for the EU27, and shrink the gap by another 5% of EU revenue (EUR 7-7.5 billion). According to our estimates this step would not be sufficient to close the gap, though, leaving it at a level of around 5-10% maximum and 2-7% (EUR 2.9-9.8 billion) minimum, depending on the EU-UK arrangements regarding their future relationship.
- In any case, finally, **the EU should use the outcome of discussions between the Commission, Parliament and Council on the revision of the current MFF as a reference, proposing a funding decrease in respective categories according to their level of priority**, or dividing categories into two or more groups of different importance to execute horizontal cuts of different percentages for different areas. This could be **accompanied by additional EU27 payments in fields of higher importance**. New political priorities and budget pressures which have been rising regardless of Brexit, linked e.g. to migration or security, could therefore be addressed accordingly, and similarly to areas with a higher EU added value (like research, combating climate change or defence).

Such measures could serve in a transition period before any new potential budget arrangements that could be brought by the next MFF are in place. Given the many uncertainties, instead of offering detailed proposals we suggest a couple of principles that could guide the MFF post-2020. First of all, it is **vital to realise that citizens' trust and support is crucial for the future of the European project**, and it **could be regained or strengthened through a revised financial framework**. We thus recommend that the **concept of European added value is pursued in shaping future budgets**, which was also reflected in the recommendations of the HLGOR in its final report. The proposals of the Monti group regarding the financing of the EU should also be given consideration, to give greater transparency and accountability to the budget, and move away from the *juste retour* logic.

In a longer perspective, the **UK's withdrawal should be treated as an opportunity to rethink the whole EU budget structurally**, reconsider the concept of a eurozone budget, or other wide reforms such as e.g. abolishing direct payments under CAP. Brexit means Brexit and budget cuts mean budget cuts, but they also should be seen as a momentum for change. MFF negotiations will most certainly be more arduous than ever, but failing to propose any constructive reform will leave the EU in a situation that could be even more difficult – and all the more so for the European project in general, which is already facing huge challenges. Given the current political reality and history of discussions on a comprehensive budget reform, such an outcome, however, cannot be ruled out.

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Annex I

Table I.1. UK contributions to, and public sector receipts from, the EU budget (EUR million) in absolute terms

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	2017*	2016**	2017**	2018**	2019**	2020**
Traditional Own Resources (TOR) net	2657.0	2500.1	2232.0	2513.5	2551.8	2716.3	2558.8	2730.7	3199.9	3247.5	3433.9	2937.4	3551.6	3031.1	3067.5	3049.0
VAT own resource	3409.6	2940.5	2124.7	2629.0	2513.1	2794.3	2527.3	2932.9	3737.5	3645.6	3551.7	3645.6	3166.5	3232.0	3338.1	3460.5
GNI own resource	12553.6	10930.4	10797.7	12997.8	12267.2	14391.5	16230.0	14524.6	20599.7	16698.3	15396.6	16518.8	15189.2	15363.2	16223.7	16765.0
Adjustment re-implementation of 2007 and 2014 Own Resources Decisions	0.0	0.0	523.7	0.0	0.0	0.0	0.0	0.0	0.0	700.9	0.0					
Lump sum reduction for NL, SE (and DK from 2014, AT 2014-2016)	0.0	0.0	115.3	116.1	116.2	126.5	123.6	0.0	0.0	192.1	180.9					
JHA adjustment for DK, IE, UK	-2.4	-5.1	-24.2	-34.4	-27.1	-47.5	-41.9	-49.6	-44.1	p.m.	p.m.					
Sum before UK rebate	**18617.8**	**16365.9**	**15769.3**	**18222.0**	**17421.2**	**19981.1**	**21397.8**	**20138.6**	**27493.0**	**24484.4**	**22563.1**	**23101.8**	**21907.3**	**21626.2**	**22629.2**	**23274.4**
UK rebate	-5188.9	-6252.0	-5657.7	-3562.7	-3595.9	-3803.6	-4329.5	-6066.3	-6083.6	-6505.0	-5238.5	-6386.0	-6755.7	-4172.4	-4608.4	-5013.6
National contribution (excluding TOR)	**10771.9**	**7613.8**	**7879.6**	**12145.8**	**11273.4**	**13461.1**	**14509.5**	**11341.6**	**18209.4**	**14731.9**	**13890.7**	**13778.3**	**11600.0**	**14422.7**	**14953.4**	**15211.9**
Gross contribution (after UK rebate)	**13429.0**	**10113.9**	**10111.6**	**14659.4**	**13825.2**	**16177.5**	**17068.4**	**14072.3**	**21409.3**	**17979.4**	**17324.6**	**16715.8**	**15151.6**	**17453.8**	**18020.9**	**18260.8**
Competitiveness for growth and jobs	649.3	1034.1	1045.8	931.1	1187.2	1268.9	1441.6	1023.8	1589.6	p.m.	p.m.					
Economic, social and territorial cohesion	2357.0	2100.3	1274.9	1669.8	1211.9	1280.4	665.3	1723.0	1782.7	p.m.	p.m.					
Sustainable growth: natural resources	4233.7	3803.9	3712.3	3940.9	3961.4	4182.6	3958.2	3951.7	3788.5	p.m.	p.m.					
Security and citizenship	42.4	202.9	88.0	64.6	80.9	70.0	115.1	136.6	149.5	p.m.	p.m.					
Other receipts	140.5	168.7	126.1	139.3	128.6	132.0	128.1	149.6	147.4	p.m.	p.m.					
Total public sector receipts	**7422.9**	**7309.9**	**6247.1**	**6745.6**	**6570.0**	**6933.9**	**6308.3**	**6984.7**	**7457.6**	**p.m.**	**p.m.**	**5471.9**	**5637.1**	**6105.2**	**6465.9**	**6729.9**
Net contribution	**6006.0**	**2804.0**	**3864.5**	**7913.7**	**7255.2**	**9243.6**	**10760.1**	**7087.6**	**13951.7**	**p.m.**	**p.m.**	**11243.9**	**9514.5**	**11348.6**	**11555.0**	**11530.9**

Source: For years 2007-2015 EU financial reports 2007-2015; for 2016* European Parliament, "Amending Budget No 6 of the EU for the financial year 2016", 01.12.2016, http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=OJ:L:2017:052:FULL&from=en; for 2017* European Parliament, "EU's general budget for the financial year 2017", 01.12.2016, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:051:TOC; for 2016**-2020** Office for Budget Responsibility, "Economic and fiscal outlook supplementary fiscal tables: expenditure – November 2016", Table 2.27 "Transactions with the EU in € billion, calendar year, on a 'no referendum' counterfactual basis", 29.11.2016, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016.

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Table I.2. UK contributions to, and public sector receipts from, the EU budget (EUR million) in relative terms

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	2017*
Total EU revenue	117563.0	121584.4	117625.6	127795.3	130000.0	139540.5	149503.7	143940.1	146027.4	136642.5	134490.4
Total EU own resources	109987.5	111169.1	108906.9	119074.9	119994.7	129429.8	139743.6	132961.3	137334.7	133676.7	131718.0
UK sum before rebate	18617.8	16365.9	15769.3	18222.0	17421.2	19981.1	21397.8	20138.6	27493.0	24484.4	22563.1
UK gross contribution (after rebate)	13429.0	10113.9	10111.6	14659.4	13825.2	16177.5	17068.4	14072.3	21409.3	17979.4	17324.6
UK net contribution	6006.0	2804.0	3864.5	7913.7	7255.2	9243.6	10760.1	7087.6	13951.7	p.m.	p.m.
UK sum before rebate as % of total EU revenue	**15.8%**	**13.5%**	**13.4%**	**14.3%**	**13.4%**	**14.3%**	**14.3%**	**14.0%**	**18.8%**	**17.9%**	**16.8%**
UK gross contribution as % of total EU revenue	**11.4%**	**8.3%**	**8.6%**	**11.5%**	**10.6%**	**11.6%**	**11.4%**	**9.8%**	**14.7%**	**13.2%**	**12.9%**
UK net contribution as % of total EU revenue	**5.1%**	**2.3%**	**3.3%**	**6.2%**	**5.6%**	**6.6%**	**7.2%**	**4.9%**	**9.6%**	**p.m.**	**p.m.**
UK gross contribution as % of total EU own resources	12.2%	9.1%	9.3%	12.3%	11.5%	12.5%	12.2%	10.6%	15.6%	13.4%	13.2%
UK place on list of MS by gross contribution level**	4 (DE, FR, IT)	4 (DE, FR, IT)	5 (DE, FR, IT, ES)	4 (DE, FR, IT)	4 (DE, FR, IT)	4 (DE, FR, IT)	4 (DE, FR, IT)	4 (DE, FR, IT)	2 (DE)	3 (DE, FR)	3 (DE, FR)
UK place on list of MS by net contribution level**	2 (DE)	5 (DE, IT, NL, FR)	4 (DE, FR, IT)	2 (DE)	2 (DE)	2 (DE)	2 (DE)	3 (DE, FR)	2 (DE)	p.m.	p.m.
UK gross contribution as % of UK GNI	0.66%	0.55%	0.63%	0.85%	0.79%	0.85%	0.91%	0.65%	0.85%	p.m.	p.m.
UK place on list of MS by gross contribution as % of individual GNI**	27	27	26 (NL)	27	27	27	27 (HR)	28	26 (EL, AT)	p.m.	p.m.
UK net contribution per capita	97.9	45.4	62.1	126.1	114.7	145.1	167.8	109.8	214.5	p.m.	p.m.
UK place on list of MS by net contribution per capita level**	5 (NL, DK, SE, DE)	10 (NL, SE, DK, DE, IT, FI, FR, CY, AT)	7 (DK, FI, DE, IT, FR, NL)	5 (NL, SE, DK, DE)	6 (NL, DK, SE, DE, FI)	5 (NL, SE, DK, DE)	5 (SE, DK, NL, DE)	8 (NL, SE, DE, DK, FI, AT, FR)	3 (NL, SE)	p.m.	p.m.
Total EU expenditure	113953.3	116544.5	118361.0	122230.7	129394.9	138683.4	148468.9	142497.0	145243.2	136642.5	134490.4
Total UK contribution as % of total EU expenditure	**11.8%**	**8.7%**	**8.5%**	**12.0%**	**10.7%**	**11.7%**	**11.5%**	**9.9%**	**14.7%**	**13.2%**	**12.9%**
Total EU expenditure on EU MS	105299.5	104962.0	102821.2	111337.5	117336.9	126349.3	134656.1	128564.9	130108.6	p.m.	p.m.
Total UK public sector receipts	7422.9	7309.9	6247.1	6745.6	6570.0	6933.9	6308.3	6984.7	7457.6	p.m.	p.m.
Total UK public sector receipts as % of total EU expenditure	**6.5%**	**6.3%**	**5.3%**	**5.5%**	**5.1%**	**5.0%**	**4.2%**	**4.9%**	**5.1%**	**p.m.**	**p.m.**
Total UK public sector receipts as % of total EU expenditure on EU MS	7.0%	7.0%	6.1%	6.1%	5.6%	5.5%	4.7%	5.4%	5.7%	p.m.	p.m.
UK place on list of MS by receipts level	7 (FR, ES, DE, IT, EL, PL)	7 (FR, ES, DE, IT, EL, PL)	6 (FR, DE, ES, IT, PL)	6 (ES, FR, DE, PL, IT)	7 (PL, ES, FR, DE, IT, BE)	7 (PL, ES, FR, DE, IT, BE)	8 (PL, FR, ES, DE, IT, EL, BE)	8 (PL, FR, ES, DE, IT, EL, BE)	6 (FR, ES, PL, IT, DE)	p.m.	p.m.
Total UK receipts as % of UK GNI	0.36%	0.40%	0.39%	0.39%	0.38%	0.36%	0.34%	0.32%	0.30%	p.m.	p.m.
UK place on list of MS by total receipts as % of individual GNI	26 (NL)	26 (NL)	26 (NL)	26 (NL)	26 (NL)	26 (NL)	28	27 (NL)	28	p.m.	p.m.

Source: For years 2007-2015 EU financial reports 2007-2015; for 2016* European Parliament, "Amending Budget No 6 of the EU for the financial year 2016", 01.12.2016, http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=OJ:L:2017:052:FULL&from=en; for 2017* European Parliament, "EU's general budget for the financial year 2017", 01.12.2016, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:051:TOC.

Note: All rankings arranged from largest to smallest values for EU27 up to 2012 and EU28 from 2013 onwards.

Annex II

Table II.1 displays total EU spending and UK public sector receipts from the EU budget in 2014 and 2015 by EU category of expenditure. For a clearer overview and comparison, we use spending categories from the 2015 budget, analysing them up to the second subheading and indicating in which areas the UK benefited the most from EU spending in gross and net terms

In each of the three columns concerning the UK the most significant numbers are highlighted in light grey:

- UK public sector receipts above EUR 100 million;
- UK public sector receipts accounting for more than 4.90% and 5.1% of EU spending in a given field in 2014 and 2015 respectively (as the total UK public sector receipts equalled 4.9% and 5.1% of EU expenditure in these periods);
- Areas where the UK was one of the three biggest recipients among the member states in a given year.

Additionally, the fields in green show where the percentage of EU expenditure granted to the UK public sector was higher than the overall level of UK contributions as a percentage of EU spending, which equalled 9.9% and 14.7% in 2014 and 2015 respectively.[104] This allows to identify categories in which the UK was a net recipient of EU funding.

[104] As the country contributions to the EU budget are only divided into spending categories once they are summed up together and with other EU revenue sources, it is impossible to say for any country how much of their contribution was dedicated to a given expenditure heading. The overall level of UK contribution as % of EU budget receipts serves in this case as the most relevant indicator.

Table II.1. EU expenditure and UK public sector receipts from EU budget in 2014-2015 (EUR million) by heading

	Heading (as in 2015 budget)	2014 EU spending (mln)	2014 UK public sector receipts (mln)	2014 UK public sector receipts (% EU spending)	2014 UK place on list of 28 MS by receipts level	2015 EU spending (mln)	2015 UK public sector receipts (mln)	2015 UK public sector receipts (% EU spending)	2015 UK place on list of 28 MS by receipts level
1	**SMART AND INCLUSIVE GROWTH**	**67682.9**	**2746.9**	**4.06%**	**11**	**68,009.2**	**3,372.3**	**4.96%**	**9**
1.1	**Competitiveness for growth and jobs**	**13331.3**	**1023.8**	**7.68%**	**5**	**16,801.9**	**1,589.6**	**9.46%**	**3**
1.1.1	Large infrastructure projects	1829.1	48.3	2.64%	7	1,784.1	86.4	4.84%	4
1.1.2	Nuclear decommissioning assistance programmes	164.6	0.0	0.00%	4	149.7	0.0	0.00%	4
1.1.3	Common Strategic Framework (CSF) Research and Innovation	7643.2	796.5	10.42%	2	9,985.5	1,280.1	12.82%	1
1.1.4	Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME)	236.9	3.9	1.63%	2	347.6	15.0	4.31%	3
1.1.5	The Union Programme for Education, Training, Youth and Sport (Erasmus+)	1509.4	104.1	6.90%	5	1,834.2	120.8	6.58%	5
1.1.6	European Union Programme for Employment and Social Innovation (EaSI)	83.7	6.8	8.07%	4	88.3	6.3	7.12%	3
1.1.7	Action Programmes for customs, for taxation and for anti-fraud in the European Union (Customs 2020, Fiscalis 2020 and Anti-Fraud)	95.0	0.7	0.72%	11	109.1	0.5	0.50%	14
1.1.8	Connecting Europe Facility (CEF)	831.0	15.3	1.84%	10	1,414.4	37.1	2.62%	6
1.1.9	Energy projects to aid economic recovery (EERP)	239.1	18.1	7.57%	4	401.9	11.5	2.86%	10
1.1.DAG	Decentralised agencies	249.3	13.0	5.22%	5	252.7	13.5	5.35%	8
1.1.OTH	Other actions and programmes	315.6	6.6	2.10%	7	300.9	8.0	2.67%	7
1.1.PPA	Pilot projects and preparatory actions	18.4	0.9	4.79%	6	17.0	0.7	3.92%	6
1.1.SPEC	Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	115.9	9.7	8.38%	3	116.8	9.6	8.25%	4
1.2	**Economic, social and territorial cohesion**	**54351.6**	**1723.0**	**3.17%**	**11**	**51,207.3**	**1,782.7**	**3.48%**	**11**
1.2.1	Investment for growth and jobs	52128.7	1650.0	3.17%	11	48,279.6	1,637.7	3.39%	11
1.2.2	European territorial cooperation	1688.6	71.1	4.21%	7	1,288.0	77.7	6.04%	6
1.2.3	Technical assistance and innovative actions	84.4	1.4	1.72%	6	161.7	3.4	2.08%	4
1.2.4	Fund for European Aid to the Most Deprived	409.5	0.0	0.00%	26	45.5	0.4	0.95%	5
1.2.5	Youth Employment Initiative (specific top-up allocation)	34.3	0.5	1.35%	10	1,035.1	63.4	6.13%	6
1.2.6	Contribution to the Connecting Europe Facility (CEF)	na	na	na	na	393.6	0.1	0.02%	12
1.2.DAG	Decentralised agencies	0.0	0.0	na	na	0.0	0.0	na	na
1.2.OTH	Other actions and programmes	0.0	0.0	na	na	0.0	0.0	na	na
1.2.PPA	Pilot projects and preparatory actions	6.0	0.0	0.00%	7	3.7	0.0	0.00%	7
1.2.SPEC	Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	0.0	0.0	na	na	0.0	0.0	na	na
2	**SUSTAINABLE GROWTH: NATURAL RESOURCES**	**56584.5**	**3951.7**	**6.98%**	**6**	**58,065.5**	**3,788.5**	**6.52%**	**6**
2.0.1	European Agricultural Guarantee Fund (EAGF) - Market related expenditure and direct payments	44288.1	3195.1	7.21%	6	44,939.6	3,101.2	6.90%	6
2.0.2	European Agricultural Fund for Rural Development (EAFRD)	11190.0	689.4	6.16%	8	11,793.3	619.1	5.25%	7
2.0.3	European Maritime and Fisheries Fund (EMFF), Regional Fisheries Management Organisations (RFMOs) and Sustainable Fisheries Agreements (SFAs)	757.2	48.1	6.36%	4	911.4	40.7	4.47%	8
2.0.4	Programme for the Environment and Climate Action (Life)	270.4	18.5	6.86%	4	341.1	25.9	7.58%	5
2.0.DAG	Decentralised agencies	58.7	0.0	0.00%	4	58.3	0.1	0.18%	10
2.0.OTH	Other actions and programme	0.0	0.0	na	na	0.0	0.0	na	na
2.0.PPA	Pilot projects and preparatory actions	17.1	0.4	2.57%	9	13.4	1.5	11.26%	4
2.0.SPEC	Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	3.0	0.0	0.00%	3	8.4	0.0	0.35%	3
3	**SECURITY AND CITIZENSHIP**	**1711.0**	**136.6**	**7.98%**	**4**	**2,018.5**	**149.5**	**7.40%**	**6**
3.0.1	Asylum, Migration and Integration Fund	186.0	20.7	11.14%	3	413.2	43.6	10.55%	3
3.0.2	Internal Security Fund	214.4	8.6	4.03%	9	365.8	2.7	0.73%	20
3.0.3	IT Systems	31.7	0.0	0.00%	3	19.3	0.0	0.00%	2
3.0.4	Justice Programme	40.1	5.3	13.16%	2	32.2	1.7	5.36%	5
3.0.5	Rights, Equality and Citizenship programme	46.8	3.4	7.30%	5	39.6	4.7	11.85%	2
3.0.6	Union Civil Protection Mechanism	28.4	2.6	8.99%	3	24.8	0.2	0.77%	16
3.0.7	Europe for Citizens	26.4	0.9	3.38%	8	19.1	0.6	3.32%	9
3.0.8	Food and feed	219.0	36.5	16.64%	1	205.7	41.1	19.99%	1
3.0.9	Union action in the field of health (Health Programme)	48.1	4.4	9.10%	3	47.8	3.8	8.03%	5
3.0.10	Consumer Programme	19.7	0.7	3.51%	5	19.6	0.6	3.18%	7
3.0.11	Creative Europe Programme	192.0	11.1	5.79%	4	169.2	12.0	7.08%	4
3.0.DAG	Decentralised agencies	476.2	38.3	8.05%	6	560.9	35.4	6.31%	4
3.0.OTH	Other actions and programme	0.6	0.0	0.00%	4	0.0	0.0	na	na
3.0.PPA	Pilot projects and preparatory actions	11.4	2.0	17.14%	2	11.6	1.1	9.73%	4
3.0.SPEC	Actions financed under the prerogatives of the Commission and specific competences conferred to the Commission	170.2	2.1	1.25%	8	89.7	1.8	2.02%	6
4	**GLOBAL EUROPE**	**7205.8**	**0.0**	**0.00%**	**8**	**7,884.4**	**0.0**	**0.00%**	**13**
4.0.1	Instrument for Pre-accession Assistance (IPA)	1314.6	0.0	0.00%	8	1,526.1	0.0	0.00%	13
4.0.OTH	other	5891.2	0.0	0.00%	na	6,358.3	0.0	0.00%	na
5	**ADMINISTRATION**	**8819.3**	**149.3**	**1.69%**	**6**	**8,977.6**	**147.4**	**1.64%**	**6**
6	**COMPENSATIONS**	**28.6**	**0.0**	**0.00%**	**2**	**0.0**	**0.0**	**na**	**na**
8	**NEGATIVE RESERVE**	**0.0**	**0.0**	**na**	**na**	**0.0**	**0.0**	**na**	**na**
9	**SPECIAL INSTRUMENTS**	**464.9**	**0.3**	**0.07%**	**8**	**287.9**	**0.0**	**0.00%**	**12**
	TOTAL EXPENDITURE	**142497.0**	**6984.7**	**4.90%**	**8**	**145,243.2**	**7,457.6**	**5.13%**	**6**

Source: European Commission, "EU expenditure and revenue 2000-2015", http://ec.europa.eu/budget/library/biblio/documents/2015/internet-tables-2000-2015.xls.

Annex III

Two scenarios are considered when estimating the UK's potential spending related to cooperation with the EU under the Norwegian model since it is not always certain on what basis EEA EFTA states make their payments to different areas. In the EEA EFTA framework, the overall amount of direct contributions to the EU budget is established relative to GDP.[105] However, no automatic mechanism that would regulate overall levels of other spending related to cooperation with the EU seems to be disclosed.[106] As regards autonomous contributions to member states, their total size is negotiated with the European Union,[107] while EFTA budget is approved by the EFTA Council,[108] and budgets of two EFTA institutions – EFTA Surveillance Authority (ESA) and EFTA Court – are adopted by the ESA/Court Committee each year.[109]

We provide our own estimates to cover for the lack of official data on Norway's net contributions, following an approach similar to the one of Emmerson *et al*.[110] Figures from different sources make it possible to analyse Norway's net position in the research, competitiveness and innovation area in the MFF 2007-2013 – the category to which Norway dedicated the largest share of its contributions both in the former and current financial perspective.[111] Assuming that Norway contributed to around 95.4% of EEA EUR 1.4 billion spending in this field in 2007-2013, its contribution could be estimated at around EUR 1.35 billion.[112] When comparing this number with the EUR 712 million of Norwegian receipts in this area,[113] it can be estimated that Norway received back around 52.7% of its gross contribution. If this was replicated across all the other programmes in which Norway participated in the previous and current MFF, assumption can be made about the Norwegian net contributions to the EU budget in 2007-2013 and 2014-2020 (including the period 2014-2015).

[105] EFTA, "Agreement on the European Economic Area", Art. 82, 17.03.1993, last updated 01.08.2016, http://www.efta.int/media/documents/legal-texts/eea/the-eea-agreement/Main%20Text%20of%20the%20Agreement/EEAagreement.pdf

[106] As regards internal cost sharing, e.g. national direct contributions are relative to GDP, while payments to the budgets of ESA and EFTA Court are established at fixed percentage. The ESA/Court Committee adopted the contribution scale (also referred to as the Cost Sharing Formula) on 10 May 1995, by which Norway contributes with 89%, Iceland with 9%, and Liechtenstein with 2% of the budget. See e.g. EEA Grants – Norway Grants, Factsheet: "EEA and Norway Grants 2014-2021", *op. cit.*; ESA, "Statement of accounts for the financial year 2014", 31.03.2015, http://www.eftasurv.int/media/esa-docs/physical/Financial-statement-2014.pdf

[107] EFTA, "Agreement on the European Economic Area", Art. 115-117, *op. cit.*; EFTA, Protocols 38, 38a, 38b, 38c to the EEA Agreement, http://www.efta.int/legal-texts/eea/protocols-to-the-agreement

[108] EFTA, "Convention establishing the European Free Trade Association", Art. 44, consolidated version, last amended on 01.07.2013, http://www.efta.int/sites/default/files/documents/legal-texts/efta-convention/Vaduz%20Convention%20Agreement.pdf

[109] See e.g. EFTA, "Agreement between the EFTA states on the establishment of a Surveillance Authority and a Court Of Justice", Art. 47-48, 02.05.1992, last updated 07.03.2012, http://www.efta.int/media/documents/legal-texts/the-surveillance-and-court-agreement/agreement-annexes-and-protocols/Surveillance-and-Court-Agreement-consolidated.pdf; ESA, "Statement of accounts for the financial year 2014", *op. cit.*; EFTA Court, "Who sets the budget and how are the contributions fixed?", http://www.eftacourt.int/the-court/jurisdiction-organisation/questions-and-answers/

[110] Emmerson, C., Johnson, P., Mitchell, I., Philips, D., "Brexit and the UK's Public Finances", Institute for Fiscal Studies, IFS Report 116, 25.05.2016, https://www.ifs.org.uk/uploads/publications/comms/r116.pdf

[111] Total EEA's contribution to this area amounted to about EUR 1.4 billion (around 78.7% of the total contribution of EUR 1.8 billion) in 2007-2013, and to EUR 2.3 billion (around 71.7% of the total forecasted contribution of EUR 3.2 billion) in 2014-2020. Calculations based on EFTA, Annual Reports 2007-2014, http://www.efta.int/publications/annual-report; Hedh, A., Johansen, I., "Report on EU programmes 2014-2020 and the participation of the EEA EFTA States", European Economic Area Joint Parliamentary Committee, Ref. 1118104, 27.11.2012, http://www.efta.int/sites/default/files/documents/advisory-bodies/parliamentary-committee/jpc-reports/EEA_JPC_Report_EU_Programmes.pdf; EFTA, "EU Programmes with EEA EFTA Participation 2014-2020", *op. cit.*

[112] EEA EFTA countries share the cost between them according to relative GDP statistics. See: Hedh, A., Johansen, I., "Report on EU programmes 2014-2020 and the participation of the EEA EFTA States", *op. cit.*

[113] European Commission, Press release: "Iceland and Norway sign up to join Horizon 2020", 16.05.2014, http://europa.eu/rapid/press-release_IP-14-566_en.htm

Potential average UK net contributions to the EU budget under the Norway model are estimated based on the UK's possible gross contributions as a percentage of its GDP equal to the Norwegian one, and the UK's real yearly average receipts in 2007-2013 and 2014-2015 in the programmes to which Norway also participated in these periods.[114]

Calculations of the UK's contributions to the Cohesion Fund are based on the amount of EU expenditure on the Cohesion Fund in 2014 and on the percentage of the UK's contribution to the total EU revenue in the same year.

Table III.1. Estimated yearly average of Norway's contributions to the EU and EEA/EFTA and the UK's contributions to the EU (EUR million) in 2007-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross	622.9	4.9	127.3	337176.9	0.18%
Norway net	477.5	4.9	97.6	337176.9	0.14%
UK gross	13626.4	62.8	217.1	1961453.5	0.69%
UK net	6835.3	62.8	108.9	1961453.5	0.35%
1 scenario					
UK gross	3623.3	62.8	57.7	1961453.5	0.18%
UK net	2578.4	62.8	41.1	1961453.5	0.13%
2 scenario					
UK gross	6056.6	62.8	96.5	1961453.5	0.31%
UK net	5011.7	62.8	79.9	1961453.5	0.26%

Source: Calculations based on data from Table 1; Table I. 1; Eurostat, Database: "Population change - Demographic balance and crude rates at national level", http://ec.europa.eu/eurostat/web/products-datasets/-/demo_gind; Eurostat, Database: "GDP and main components (output, expenditure and income)", http://ec.europa.eu/eurostat/web/products-datasets/-/nama_10_gdp; European Commission, "EU expenditure and revenue 2000-2015", http://ec.europa.eu/budget/library/biblio/documents/2015/internet-tables-2000-2015.xls.

Table III.2. Estimated yearly average of Norway's and the UK's contributions to the EU budget (EUR million) in 2007-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross	275.7	4.9	56.4	337176.9	0.08%
Norway net	130.4	4.9	26.6	337176.9	0.04%
UK gross	13626.4	62.8	217.1	1961453.5	0.69%
UK net	6835.3	62.8	108.9	1961453.5	0.35%
1/2 scenario					
UK gross	1603.8	62.8	25.6	1961453.5	0.08%
UK net	558.9	62.8	8.9	1961453.5	0.03%

Table III.3. Yearly average of Norway's contributions to EEA and Norway Grants and the UK's contributions to the Cohesion Fund (EUR million) in 2007-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross/net	323.3	4.9	66.1	337176.9	0.10%
UK gross/net	814.9	62.8	13.0	1961453.5	0.04%
1 scenario					
UK gross/net	1881.0	62.8	30.0	1961453.5	0.10%
2 scenario					
UK gross/net	4147.3	62.8	66.1	1961453.5	0.21%

Table III.4. Yearly average of Norway's contributions to budgets of EFTA and its supervisory bodies and the UK's potential contributions (EUR million) in 2007-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross/net	23.8	4.9	4.9	337176.9	0.0071%
UK gross/net	0.0	62.8	0.0	1961453.5	0.00%
1 scenario					
UK gross/net	138.5	62.8	2.2	1961453.5	0.0071%
2 scenario					
UK gross/net	305.5	62.8	4.9	1961453.5	0.0156%

[114] UK net contributions are given as approximate numbers as detailed data regarding the country's receipts is not readily available for all the areas in which Norway also participated in the periods 2007-2013 and 2014-2015, e.g. European Statistical Programme.

Table III.5. Estimated yearly average of Norway's contributions to the EU and EEA/EFTA and the UK's contributions to the EU (EUR million) in 2014-2015

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross	842.3	5.2	163.1	362113.2	0.23%
Norway net	618.7	5.2	119.8	362113.2	0.17%
UK gross	17740.8	64.8	273.7	2419042.5	0.73%
UK net	10519.7	64.8	162.3	2419042.5	0.43%
1 scenario					
UK gross	5627.2	64.8	86.8	2419042.5	0.23%
UK net	4370.2	64.8	67.4	2419042.5	0.18%
2 scenario					
UK gross	8081.1	64.8	124.7	2419042.5	0.33%
UK net	6824.2	64.8	105.3	2419042.5	0.28%

Table III.6. Estimated yearly average of Norway's and the UK's contributions to the EU budget (EUR million) in 2014-2015

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross	424.3	5.2	82.2	362113.2	0.12%
Norway net	200.6	5.2	38.9	362113.2	0.06%
UK gross	17740.8	64.8	273.7	2419042.5	0.73%
UK net	10519.7	64.8	162.3	2419042.5	0.43%
1/2 scenario					
UK gross	2834.4	64.8	43.7	2419042.5	0.12%
UK net	1577.5	64.8	24.3	2419042.5	0.07%

Table III.7. Yearly average of Norway's contributions to EEA and Norway Grants and the UK's contributions to the Cohesion Fund (EUR million) in 2014-2015

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross/net	391.4	5.2	75.8	362113.2	0.11%
UK gross/net	1555.3	64.8	24.0	2419042.5	0.06%
1 scenario					
UK gross/net	2614.8	64.8	40.3	2419042.5	0.11%
2 scenario					
UK gross/net	4912.3	64.8	75.8	2419042.5	0.20%

Table III.8. Yearly average of Norway's contributions to budgets of EFTA and its supervisory bodies and the UK's potential contributions (EUR million) in 2014-2015

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Norway gross/net	26.6	5.2	5.2	362113.2	0.0074%
UK gross/net	0.0	64.8	0.0	2419042.5	0.00%
1 scenario					
UK gross/net	178.0	64.8	2.7	2419042.5	0.0074%
2 scenario					
UK gross/net	334.4	64.8	5.2	2419042.5	0.0138%

Annex IV

Swiss participation in EU programmes

Until 2013 Switzerland participated in "Youth in action" and "Lifelong learning" programmes (current Erasmus+) with CHF 67.39 million for 2011-2013, as well as the "MEDIA" programme (current Creative Europe) with CHF 59.1 million for 2007-2013. Switzerland predicted it would take part in these programmes in the new period 2014-2020, contributing CHF 185 million and CHF 62.13 million respectively. However, following the referendum on 9 February 2014 that backed reintroduction of immigration quotas for the EU, participation in Erasmus+ has been limited to Partner Country status.[115] Furthermore, under the International Agreement associating Switzerland to parts of Horizon 2020, since 15 September 2014 Switzerland has participated only in some of its actions with an associated country status. Following a long political struggle and in view of the threat that the deal would be terminated with a retroactive effect as of 31 December 2016 if the country did not accept the Protocol on the extension to Croatia of the Free Movement of Persons Agreement between the EU and Switzerland before 9 February 2017, the Swiss government ratified the Protocol on 22 December 2016. As a result, the association agreement continues to apply and was expanded to cover the whole of Horizon 2020, the Euratom Programme and activities carried out by Fusion for Energy from 1 January 2017.[116]

Swiss payments linked to cooperation with the EU

Financial estimates made in the section on the Swiss model are based on the figures given in the Swiss Government's evaluation of Switzerland's European policy completed in 2010. Other data sources for calculations are also available, but their use was considered to produce less reliable final findings, considering the reasons outlined below

The most recent comprehensive data on Switzerland's payments to the EU was compiled in 2014 when the Swiss government replied to the Swiss Parliament on this issue. These figures are, however, available in CHF just for financing periods – mainly, but not only, for the timeframe 2007-2013 – and not for respective years. As the yearly average of Switzerland's contribution to the EU can significantly differ from the actual annual amounts (as e.g. autonomous payments tend to increase towards the end of the implementing period),and differences in yearly CHF-EUR exchange rates in the period were important (EUR 1 = CHF 1.64 in 2007 and EUR 1 = CHF 1.23 in 2013), this could affect the accuracy of findings when trying to establish the average size of Switzerland's yearly contribution for any given period, especially when attempting to make a proportional estimate for the UK in euros. However, annual amounts of the Swiss contributions were mentioned also in a few earlier sources.

In August 2009, the Swiss Government issued a brochure stating that Switzerland's yearly contribution to the EU equalled just under CHF 600 million (around EUR 397 million in 2009).[117] An addition of Switzerland's payment to the EFTA budget of CHF 9.7 million that year gives the total amount of approximately EUR 403.8

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[115] See e.g. European Commission, "Information note on the participation of Switzerland in Erasmus+", http://ec.europa.eu/programmes/erasmus-plus/updates/20140128-participation-switzerland-erasmus-plus_en

[116] See e.g. European Commission, "Swiss participation in Horizon 2020", January 2017, https://ec.europa.eu/research/participants/data/ref/h2020/other/hi/h2020-hi-swiss-part_en.pdf; Swiss Government, "Les accords bilatéraux Suisse – Union européenne", Département fédéral des affaires étrangères, 19.09.2016, https://www.dfae.admin.ch/content/dam/eda/fr/documents/publications/EuropaeischeAngelegenheiten/FS-Bilaterale_fr.pdf

[117] Integration Office FDFA/FDEA, "Bilateral agreements Switzerland-EU", *op. cit.*

million. However, the possibility of establishing reliable estimates of the UK's potential contribution under the Swiss model of cooperation with the EU on this basis, remains limited for a number of reasons. The figure of CHF 600 million was given as a lump sum, which makes assumptions regarding the share of payments specifically related to the EU budget risky – the amount of net contributions established in this way would therefore have to be approached very critically. Furthermore, between 2009 and 2015, the UK gross payments to the EU budget have doubled, which indicates dynamic changes in the EU budget and the necessity to integrate most recent numbers in order to establish meaningful conclusions.

Having in mind Switzerland's position as a net beneficiary of research funding in the period 2007-2013, and while no detailed data is available for other categories, it is assumed that Swiss payments and receipts to the EU budget in this period were in balance, thus setting its net contribution at zero.

Potential average UK net contributions to the EU budget under the Swiss model and the UK's contributions to the Cohesion Fund are calculated in the same way as in the Norwegian scenario (see Annex III). [118]

Table IV.1. Yearly average of Switzerland's contributions to the EU and EFTA and the UK's contributions to the EU (EUR million) in 2010-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Switzerland gross	503.8	8.0	63.3	493447.7	0.10%
Switzerland net	138.2	8.0	17.4	493447.7	0.03%
UK gross	15432.6	63.5	243.2	1955809.3	0.79%
UK net	8793.2	63.5	138.6	1955809.3	0.45%
1 scenario					
UK gross	1996.7	63.5	31.5	1955809.3	0.10%
UK net	960.2	63.5	15.1	1955809.3	0.05%
2 scenario					
UK gross	2551.4	63.5	40.2	1955809.3	0.13%
UK net	1514.9	63.5	23.9	1955809.3	0.08%

Source: Calculations based on data from Table 2; Table I. 1; Eurostat, Database: "Population change - Demographic balance and crude rates at national level", http://ec.europa.eu/eurostat/web/products-datasets/-/demo_gind; Eurostat, Database: "GDP and main components (output, expenditure and income)", http://ec.europa.eu/eurostat/web/products-datasets/-/nama_10_gdp; European Commission, "EU expenditure and revenue 2000-2015",http://ec.europa.eu/budget/library/biblio/documents/2015/internet-tables-2000-2015.xls.

Table IV.2. Yearly average of Switzerland's and the UK's contributions to the EU budget (EUR million) in 2010-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Switzerland gross	365.5	8.0	45.9	493447.7	0.07%
Switzerland net	0.0	8.0	0.0	493447.7	0.00%
UK gross	15432.6	63.5	243.2	1955809.3	0.79%
UK net	8793.2	63.5	138.6	1955809.3	0.45%
1/2 scenario					
UK gross	1448.8	63.5	22.8	1955809.3	0.07%
UK net	412.3	63.5	6.5	1955809.3	0.02%

Table IV.3. Yearly average of Switzerland's contributions to enlarged EU and the UK's contributions to the Cohesion Fund (EUR million) in 2010-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Switzerland	131.1	8.0	16.5	493447.7	0.03%
UK	1034.1	63.5	16.3	1955809.3	0.05%
1 scenario					
UK gross/net	519.7	63.5	8.2	1955809.3	0.03%
2 scenario					
UK gross/net	1045.9	63.5	16.5	1955809.3	0.05%

[118] UK net contributions are given as approximate numbers as detailed data regarding country's receipts is not readily available for all the areas in which Switzerland also participated in the period 2010-2013, e.g. Eurostat.

Table IV.4. Yearly average of Switzerland's contributions to EFTA budget and the UK's potential contributions (EUR million) in 2010-2013

	contribution (EUR mln)	population (mln)	contribution (EUR per capita)	GDP (EUR mln)	contribution (% GDP)
Switzerland	7.1	8.0	0.9	493447.7	0.00%
UK	0.0	63.5	0.0	1955809.3	0.00%
1 scenario					
UK gross/net	28.2	63.5	0.4	1955809.3	0.00%
2 scenario					
UK gross/net	56.8	63.5	0.9	1955809.3	0.00%

MISSION STATEMENT

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